05

UTS ENERGY CORPORATION

On the right track at the right time

This profile of UTS Energy Corporation and the Fort Hills Project that precedes the Management's Discussion and Analysis was produced in May 2006.

IT'S ALL RIGHT

2005 was the single most important year with key milestones achieved in the Fort Hills Oil Sands Project

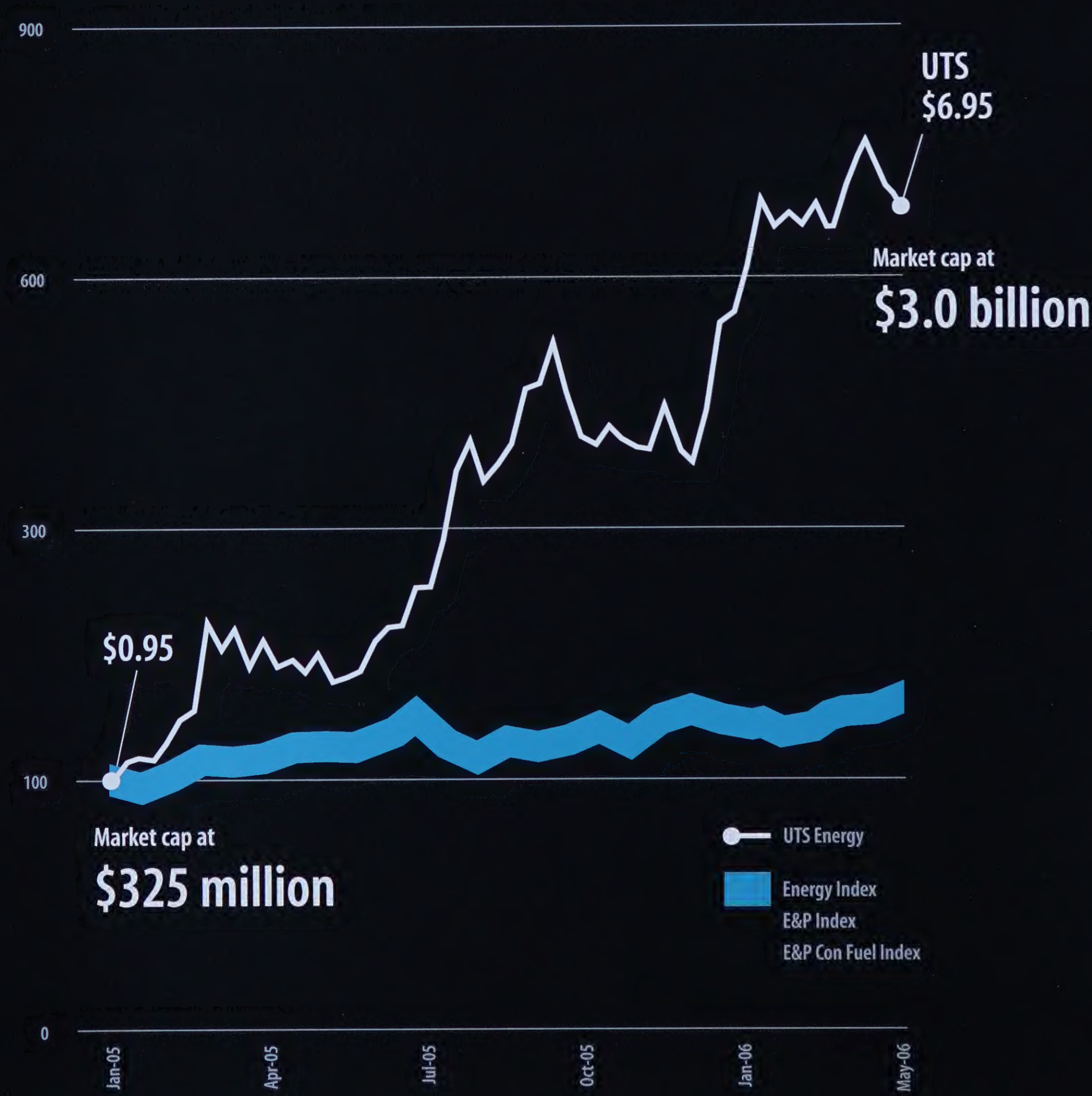
- Two world-class companies – Petro-Canada and Teck Cominco – joined UTS as partners significantly increasing operational and financial capability
- $2.5 billion committed to Project expenditures for Partners to fully earn-in
- Sturgeon County, northwest of Edmonton, was selected for the upgrading complex
- Additional leases acquired by Partnership add value, significant upside and Project flexibility
- Increased acreage position in oil sands outside of Fort Hills Oil Sands Project
- North American market has begun to recognize the sustained value and significance of oil sands – "Oil Sands have Come of Age"

The Fort Hills Project is on track with the necessary steps accomplished in 2005 that will allow realization of our long-term goal: oil sands production at Fort Hills, Alberta that generates a profitable return for investors.

UTS Energy Corporation is based in Calgary, Alberta and is listed on the Toronto Stock Exchange, symbol UTS.

OUTSTANDING PERFORMANCE

During 2005, the market responded to sustained high crude oil prices, and the successful completion of major Fort Hills Project milestones, resulting in UTS' market capitalization multiplying 10 times to $3.0 billion. UTS has growth potential from the Fort Hills Project, its expansion and the many additional opportunities secured during 2005.



For 2005, our primary focus was to move the Fort Hills Project forward, by developing our assets and securing funding. Our strategy is based on the fundamental belief that Alberta's oil sands are becoming recognized as a significant contributor to global energy supply. Entering 2005, we also recognized that having the right partners and funding capability were our two most critical next steps. As a result of successfully meeting these objectives, the Fort Hills Project is becoming a reality. It has been a very busy, productive and successful year in which we have exceeded our major objectives and, we believe, have put UTS "on the right track".

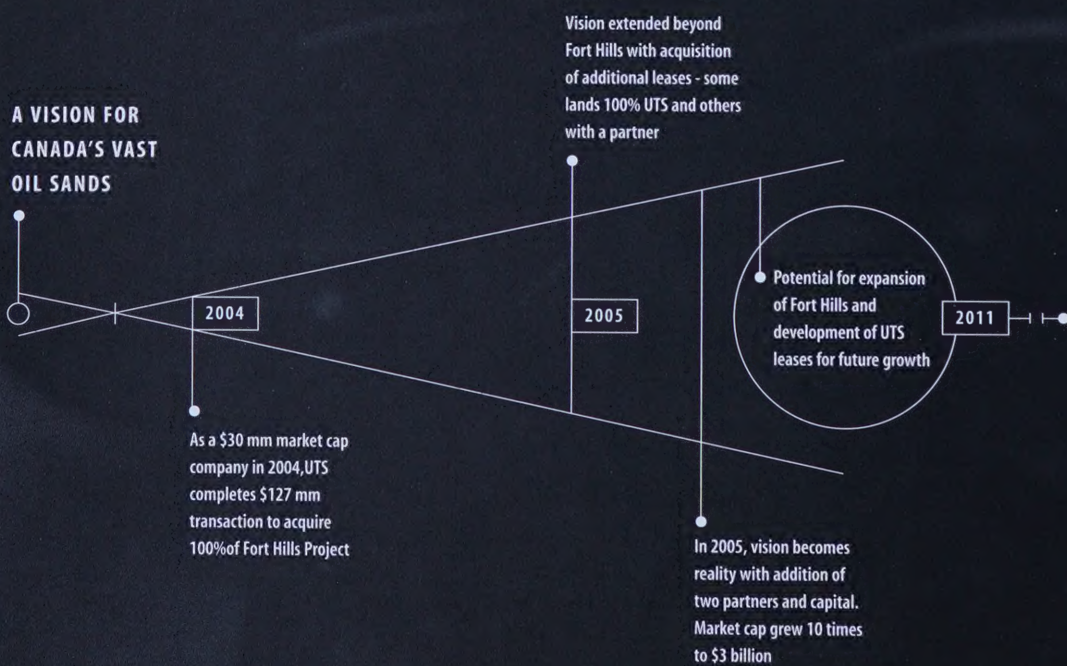
The Fort Hills Partnership, with Petro-Canada having a 55 percent working interest and operatorship and Teck Cominco with a 15 percent working interest, was formed with the requisite expertise and financial strength to deliver the Fort Hills Project. The participation of Petro-Canada and Teck Cominco has eliminated many of the perceived technical and financial uncertainties which we, as a relatively small company, faced. Petro-Canada brings to the Partnership the important and necessary skills required for the downstream project construction, operation and the marketing of product while Teck Cominco is one of the world's premier cold weather mining companies. First and foremost, the Fort Hills Project is a mining project and our strategy is clearly directed towards improving the long-term operating costs associated with the mining and extraction of bitumen.

Funding for the first C$2.5 billion of Fort Hills Project expenditures was secured through the earn-in structure of the Partnership with UTS contributing four percent during this phase and retaining a 30 percent working interest. This has effectively funded the Fort Hills Project until the first quarter of 2009.

Our Partnership interests were expanded in 2006 with the acquisition of Leases 437 and 438 which are contiguous with the northeast boundary of the existing Fort Hills Leases. These Leases, comprised of 12,968 acres, expand the Partnership land base by 22 percent. UTS acquired 1,200 acres that forms Lease 634 which is directly to the east of the Project. The intent, given the necessary regulatory approvals, is to integrate this Lease into the Project which would bring the Project holdings to a total of 60,418 acres.

UTS' land position outside of the Fort Hills Partnership was also expanded by acquiring a 50 percent working interest in Lease 311 which has 11,520 acres. Teck Cominco is our partner holding the other 50 percent. The Lease is located six miles north of existing project lands.

Also accomplished in 2005 was the successful drilling of 28 cored wells on Lease 14 which identified the presence of bitumen. Additional drilling will be required in the first quarter of 2007 to further assess and develop this asset. UTS' participation in these lands, which are in addition to the Fort Hills Project, add flexibility and upside to our development planning.



A VISION FOR CANADA'S VAST OIL SANDS
2004
As a $30 mm market cap company in 2004,UTS completes $127 mm transaction to acquire 100%of Fort Hills Project
2005
Vision extended beyond Fort Hills with acquisition of additional leases - some lands 100% UTS and others with a partner
In 2005, vision becomes reality with addition of two partners and capital. Market cap grew 10 times to $3 billion
Potential for expansion of Fort Hills and development of UTS leases for future growth
2011

Over the course of 2006, the Partnership will define the overall Project scale, budget and timing. The ultimate Project size will be driven by the recoverable resources identified in the new mine plan, which is under development, and the optimum upgrader sizing. We believe the revised mine plan will yield a considerable upside over the 2.8 billion barrel mine plan developed in 2001. The first stage of this resource upside was identified by our third-party engineering report for 2005 with best estimates indicating 3.5 billion barrels of bitumen. These estimates did not include the recently acquired Leases 437 and 438. As such, we believe the overall scale of the Project will in all likelihood increase, subject to Partnership and regulatory approvals.

In addition to Fort Hills, we will study Lease 14 development options and further delineate both Leases 14 and 311. We will also proactively evaluate a range of new exploration proposals, existing oil sands partnering initiatives and other oil sands related business opportunities. Overall, we believe that the opportunities for future growth are substantial.

In reviewing our past successes, it is most important not to lose sight of the pricing environment in which we operated during 2005. Having struggled for several years to move the Fort Hills Project to fruition, we appreciate perhaps more than most, the benefits of having oil at or above $60-$70 per barrel. Pricing in itself can solve many problems as can be witnessed by the robust nature of the energy sector. However, even in this attractive price environment where crude oil prices increased by more than 40-50 percent, our market capitalization has increased to a factor of ten times to $3.0 billion. This increase not only reflects the energy climate, but also takes into account the progress made by UTS in achieving a number of key milestones in what was a remarkable year for UTS and our Fort Hills Project.

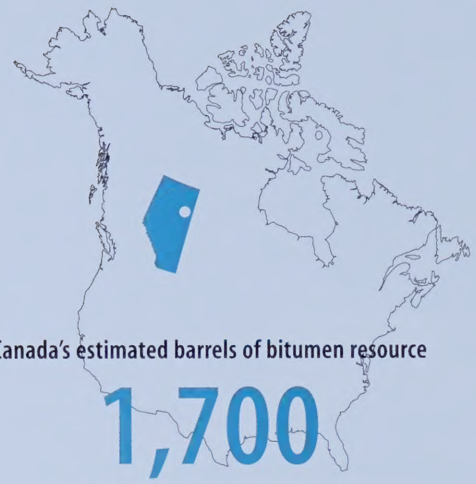
Thank you for your support in 2005 and we look forward to another successful year in 2006.

On Behalf of the Board of Directors,

Dennis A. Sharp,
Executive Chairman

William Roach,
President and Chief Executive Officer

Calgary, Alberta
May 1, 2006



Canada's estimated barrels of bitumen resource

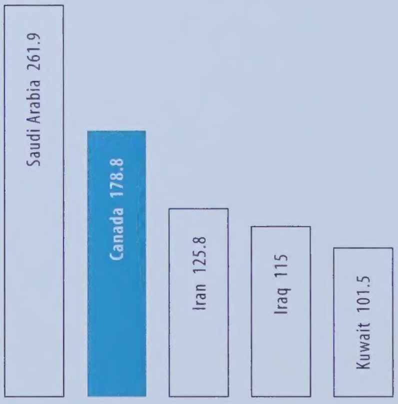
1,700
BILLION BARRELS

THE RIGHT RESOURCES

Over the past 18 months, many new players have recognized the potential inherent in 1,700 billion barrels of bitumen. UTS' vision was articulated in 2004 with the acquisition of the Fort Hills Leases. And now, with the plan for the Fort Hills Project upgrader underway, UTS is set to realize the potential from the Canadian oil sands.

CANADA'S RESERVES

(BILLIONS OF BARRELS OF PROVED RESERVES)



ALBERTA'S OIL SANDS RESOURCES

The prolific Wabiskaw-McMurray deposit in the Athabasca region is the source for the rich oil sands which will be mined in the Fort Hills Project

THE RIGHT PROJECT

The Leases in the Fort Hills Project contain an outstanding resource that will support a large, long term mining project.

Lease 437/438:
The Fort Hills Oil Sands Project
UTS has 30% WI
(12,968 acres)

Regulatory Approval
Other Oil Sands Leases
Mineable Area, Athabasca Region

Leases 5, 8 & 52:
The Fort Hills Oil Sands Project
UTS has a 30% WI
(46,170 acres)

100%

Lease 634 was acquired on September 21, 2005 by UTS. The Lease covers 1,280 acres (512 hectares) and is east of, and contiguous with, Lease 437 which was acquired by the Fort Hills Partnership on February 8, 2006. A five-well drilling program was completed in January, 2006 and the results will be known later in the year. It is intended to contribute Lease 634 into the Fort Hills Partnership in 2006.

THE RIGHT MINE PLAN

The Fort Hills Partners are re-examining the resource potential in the existing Leases and will be exploring for additional bitumen in the newly acquired Leases 437, 438 and 634. Engaging the mining expertise of Teck Cominco has already led to identification of expansion potential with the base Project Leases. A new mine plan will be prepared that takes advantage of higher oil prices to increase mineable reserves. Our new Leases will give us greater flexibility in Project development given the appropriate regulatory approval.

The end result will be the right mine plan – increased resources, increased flexibility and increased efficiency.

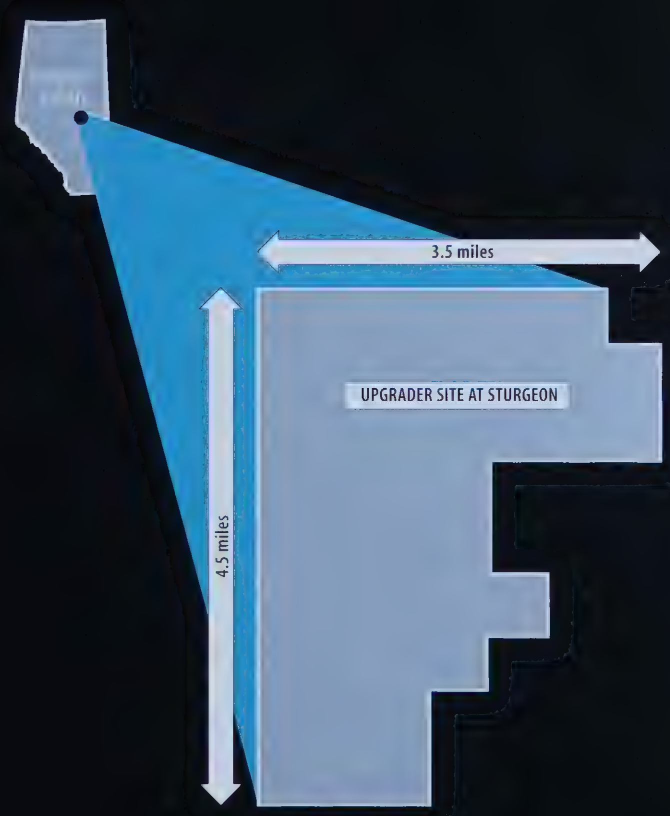
THE RIGHT EXECUTION

An upgrader to realize full value from a vast oil sands resource in our Fort Hills Project

- Segregation of upstream and downstream will allow for focused execution of the mining and upgrading Project components
- The mine recovery plan will be aided by the Whittle mine planning tool now used effectively by Teck Cominco
- Separate pipelines connecting the mine site to Sturgeon will take bitumen blended with a naphtha diluent to the upgrader and return recovered diluent back to the mine site
- The majority of construction will be located away from the Fort McMurray area
- A larger permanent construction labour pool exists in the Edmonton region
- An experienced operations labour force is resident in the upgrader area
- Access to third party bitumen will be facilitated
- The potential for synergies between the upgrader and other businesses is great
- Gasification of upgrading byproducts (coke and asphaltenes) to provide hydrogen for the upgrading process will be studied in 2006
- Gasification would insulate the Project from volatile natural gas prices and reduce operating costs
- Significant future expansion beyond the first phase in 2011 and the second phase in 2012/14 is possible

THE RIGHT LOCATION

- The upgrader's location east of Sturgeon County is part of Alberta's industrial heartland, 40 kilometres northeast of Edmonton
- The large land area provides space for extensive future expansion, including possible gasification facilities
- Even with the expansion capability, there are adequate buffer zones for surrounding residents
- The area is a hub for product transportation
- There is easy access to existing rail, road and power infrastructure



UTS RESOURCE UPSIDE

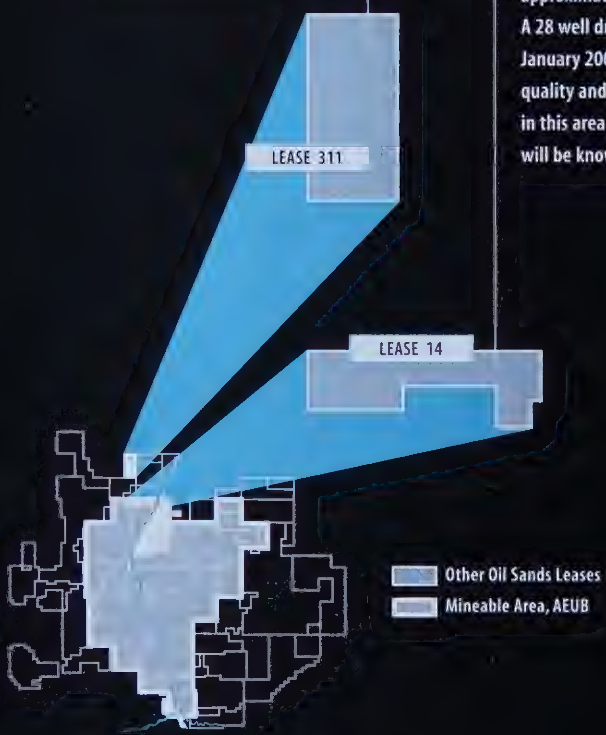
The Leases in the Fort Hills Project contain an outstanding resource that will support a large, long term mining project. Leases 14 and 311 represent significant upside for UTS that will be defined through extensive drilling, already underway in early 2006.

50%

Lease 311 was acquired by UTS and Teck Cominco (50% each) on December 14, 2005. It comprises 11,520 acres (4,608 hectares). A small drilling program consisting of several wells was started in 2006 and was not completed due to spring break-up.

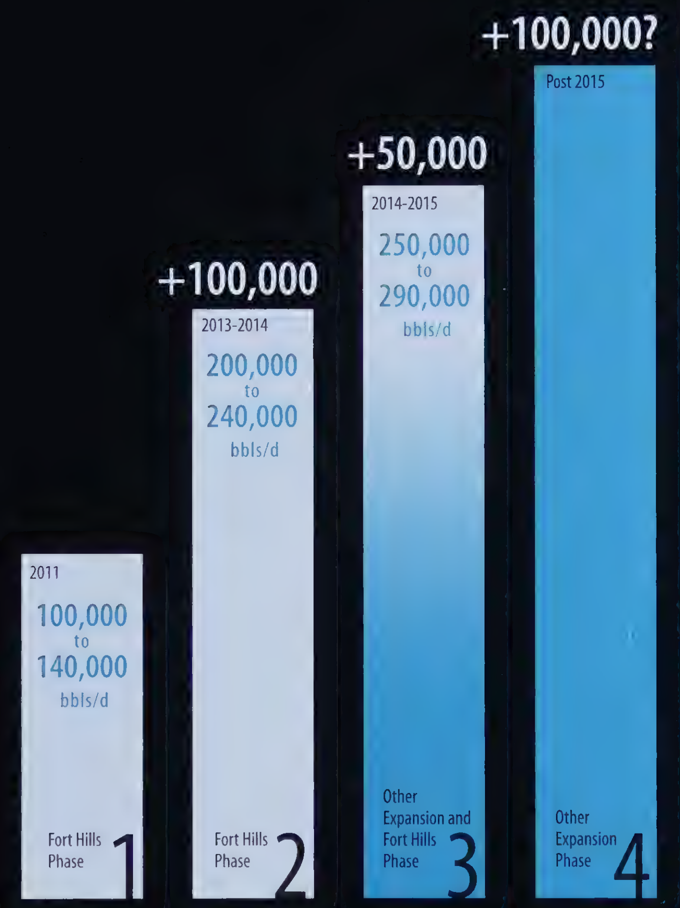
100%

UTS holds Lease 14, an oil sands lease of approximately 7,067 acres (2,827 hectares). A 28 well drilling program was completed in January 2006 to determine the extent, quality and characteristics of the oil sands in this area. Results of the drilling program will be known later in 2006.



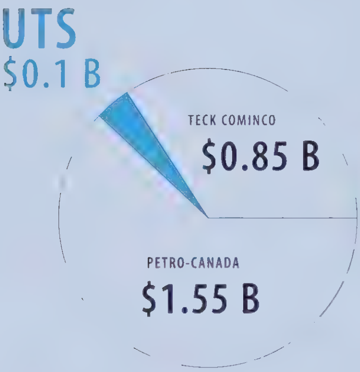
UPGRADING
EXPANSION CAPABILITY

A vision for profitable oil sands production will be realized with additional upside from expansion and the acquisition of other area leases. Long-term capacity for the Project is estimated to be 400,000 barrels per day.

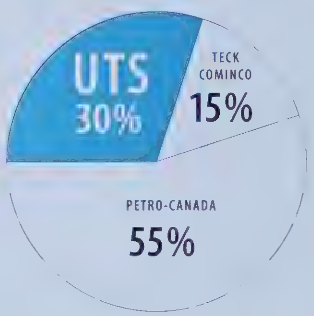


THE RIGHT PARTNERS

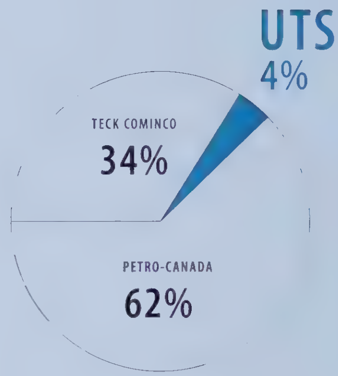
UTS' Fort Hills Project development strategy took a major step forward in 2005 with the addition of two partners to contribute expertise and capital. Perhaps as important for UTS shareholders is the excitement of future potential beyond Fort Hills with Leases acquired late in 2005 and early in 2006. The right strategy is one that translates the idea of profitable oil sands production into a growth cash flow stream over the long-term. UTS accomplished that growth strategy in 2005.



COMMITMENT
$2.5BILLION



PARTNERSHIP
(WORKING INTEREST)



EARN-IN
(UTS IS PAYING 4% OF COSTS TO EARN 30% PARTNERSHIP)

UTS

- Oil sands vision
- Original 100% acquisition of Fort Hills Project
- Partnering
- Well rounded, experienced management team
- Entrepreneurial ability to create shareholder value

PETRO-CANADA

- Production of 355,000 boe/d in 2005
- Executes and operates major downstream projects in Alberta
- Outstanding safety and environmental performance

TECK COMINCO

- Revenue of $4.4 billion in 2005 from zinc, copper, coal and gold
- Experienced in cold weather and open pit mining with an outstanding track record in operating effectiveness
- Outstanding safety and environmental performance

THE RIGHT TIME

With the full cycle cost difference between conventional and synthetic oil closing and synthetic crude realizing over $70 per barrel in 2005, the time is right for the Fort Hills Project.

Oil sands operating costs are closing the gap on conventional oil finding and development costs. Not only is production profitable with full-cycle costs of $25.60 per barrel but the Fort Hill Project will produce for over 40 years at a rate of 190,000 barrels per day, a reserve life that dwarfs average conventional plays. Moreover gasification in oil sands may reduce full cycle costs by $4 - $5 per barrel.

THE RIGHT PLAN

The many stages leading up to project start-up reflect the scope of the Fort Hills Project as well as the due diligence required to ensure capital investment and project impacts are appropriately assessed. The Partnership is committed to maximizing value for stakeholders from this premier oil sands resource. In addition, UTS is committed to pursuing upside potential found in adjacent Leases in which UTS holds between 50% and 100%.The accelerated progress achieved in 2005 provides solid evidence that UTS is in the right place at the right time.

Stage **1**

A VISION FOR THE OIL SANDS

100% Interests Acquired

The Fort Hills Project was acquired 100% by UTS in 2004. No one would dispute the exceptional timing in acquiring an asset with 3.5 billion barrels of proven reserves. It required the vision to recognize the trend of technological advances to reduce oil sands recovery costs and increasing costs for conventional exploration. These forces, in combination with ever-increasing demand, have led to the Canadian oil sands being viewed as world-class. UTS was a small company that successfully acquired a world-class asset – at the right place, at the right time.

Stage **2**

RECRUIT TEAM

Newly Formed Management

In 2004/5, UTS put in place a management team with the experience as well as technical and financial acumen to develop the Fort Hills Project opportunity. Evidence of UTS having the vision plus the expertise is reflected in the Project partner agreements and further transactions that have added considerable upside beyond the large-scale Fort Hills Project.

Stage **3**

CREATE PARTNERSHIP

Petro-Canada/Teck Cominco

In 2005, Petro-Canada became UTS' partner and operator of the Project with a commitment of $1.05 billion. Teck Cominco became the third partner and is committing $850 million. Petro-Canada at 55 percent working interest and Teck Cominco with 15 percent working interest bring valuable expertise to UTS which retains 30 percent working interest.

Stage **4**

SELECT SITE & PLAN UPGRADER

Sturgeon County

With Project financing and operator in place, work on the upgrader begins. A site outside of Edmonton was selected for the upgrader. A minimum initial capacity of 100,000 bbls/d was selected. Initial capacities of up to 140,000 bbls/d are being studied, potentially further improving the economics of the facility and taking advantage of the increased estimate of reserves in place. These plans may result in initial production of 42,000 bbl/d for UTS.

Stage **5**

UPGRADER DEVELOPMENT

Detailed planning begins

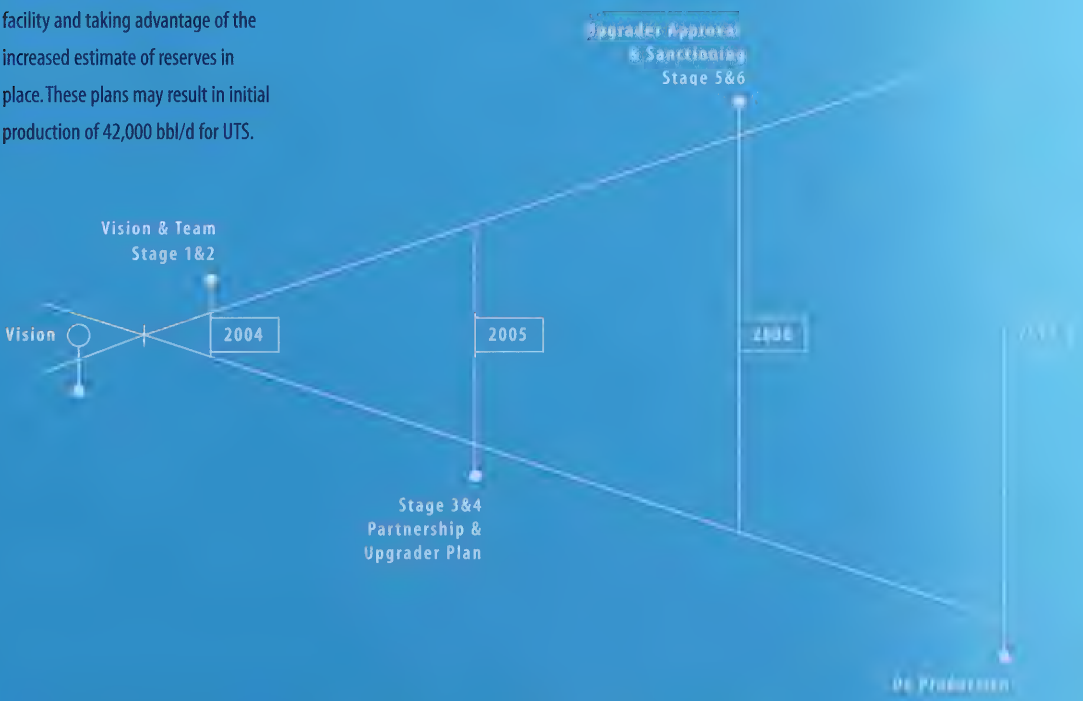
Through 2006, a design basis memorandum will be executed along with an environmental impact assessment. The goal is to have both of these steps completed before year-end.

Stage **6**

REGULATORY APPROVAL

Construction Underway

Regulatory approvals for the Project will be sought through 2007 with a goal of beginning final design, procurement, site preparation and construction in 2008. This progress will keep UTS on track for start-up in 2011.



DIRECTORS

1. **Douglas D. Baldwin**, P. Eng.
Independent Corporate Director
Calgary, Alberta, Canada

2. **D. Campbell Deacon**
Deputy Chairman &
Chief Executive Officer
Azure Dynamics Corporation
Toronto, Ontario, Canada

3. **Bruce C. Galloway**
Independent Corporate Director
Oakville, Ontario, Canada

4. **Marc Garneau**, P. Eng.
Independent Corporate Director
Westmount, Quebec, Canada

5. **Douglas H. Mitchell**, CM,Q.C.
Co-Chairman & Regional
Managing Partner
Borden Ladner Gervais LLP
Calgary, Alberta, Canada

6. **Dr. William J. F. Roach**, P. Eng.
President & Chief Executive Officer
UTS Energy Corporation
Calgary, Alberta, Canada

7. **Manfred Roth**
Chairman & Chief Executive Officer
Roth Industries GmbH & Co.
Buchenau, Germany

8. **Dennis A. Sharp**, P. Eng.
Executive Chairman
UTS Energy Corporation
Calgary, Alberta, Canada

9. **John D. Watson**, FCA
Independent Corporate Director
Calgary, Alberta, Canada

THE RIGHT VALUES

MANAGEMENT TEAM

1. **Dennis A. Sharp**, P. Eng.
Executive Chairman

2. **William J. F. Roach**, P. Eng.
President & Chief Executive Officer

3. **Wayne I. Bobye**
Vice President &
Chief Financial Officer

4. **Howard Lutley**, P. Eng.
Vice President, Mining & Extraction

5. **Martin Sandell**, P. Eng.
Vice President, Engineering

6. **Daryl M. Wightman**, P. Geol.
Vice President, Resource Development & Business Strategy

7. **Jina Abells Morissette**, LL.B.
Legal Counsel & Corporate Secretary

8. **Doug McDonald**
General Manager, Regulatory & Government Affairs

9. **Stuart Walker**
General Manager, Human Resources & Corporate Services

BOARD AND MANAGEMENT GOVERNANCE PRACTICES

At UTS, a climate of good corporate governance is practiced and promoted at all levels. UTS supports and conducts business in accordance with the Toronto Stock Exchange and Ontario Securities Commission guidelines. Our President and Chief Executive Officer and our Chief Financial Officer have both certified the quality of disclosure to the securities regulators.

Two-thirds of the Board is independent with Mr. Sharp and Dr. Roach the only two directors who are not independent. Mr. Mitchell is considered independent according to the standards set in the regulations, although the law firm at which he is a partner does provide some legal services for UTS. Mr. Mitchell is not the billing lawyer on any files relating to UTS, nor is the subject of those files in Mr. Mitchell's area of expertise. Further, the total annual amounts billed by Mr. Mitchell's firm are only slightly greater than the threshold set in the test by the securities regulators.

In order to meet with the expanding governance needs of a growing company such as UTS, the Board of Directors has approved the appointment of two new independent directors, both of whom are included on the slate for approval at the 2006 annual meeting.

The Board of Directors has two committees, the Audit and Reserves Committee and the Governance, Compensation and Nominating Committee. Both Committees are constituted entirely of independent directors consistent with National Instrument 58-201. The mandates of the Board and the Committees can be found in the Company's Information Circular.

The Board of Directors approved a number of mandates and policies including mandates for the Board of Directors and each Committee, terms of reference for the Executive Chairman, Lead Director, and President and Chief Executive Officer, a Disclosure Policy, a Code of Business Conduct and a Whistleblower Policy. Further, the Board is implementing a system of formal Board evaluation. The Company has also amended its Share Incentive Plan to allow employees to exercise their options for cash. The Board makes it a policy not to allow loans from the Company to any director or employee.

Under the Code of Business Conduct, all directors, officers and employees must adhere to principles of integrity, honesty, fairness and mutual respect. UTS is committed to the highest standards of business conduct and ethics in its dealings with all stakeholders, including its shareholders, partners, employees, contractors, consultants, landowners and suppliers, as well as all levels of government, aboriginal communities and the public at-large.

The Board of Directors and management of the Company are fully committed to UTS and all own shares in the Company. The Board has approved guidelines for share ownership. Each director is required to own shares the value of which is a minimum of six times their annual retainer. The President and CEO is required to own shares the value of which is three times his annual salary. Vice-Presidents are required to own shares the value of which is two times their annual salary and senior managers are required to own shares the value of which is equal to their annual salary. All directors and officers have met their share ownership requirements and many exceed them with the exception of the two recently appointed directors. The details of share ownership can be found in the Company's Information Circular.

UTS maintains a directors' and officers' liability insurance policy in order to provide coverage for costs incurred to defend claims and for the settlement of claims to an annual limit of CDN$15 million.

The Board of Directors and each of the Committees meet a minimum of four times per year. Each meeting contains a mandatory in-camera session for independent directors. Attendance is kept for each meeting and those records can be found in our Information Circular.

The Governance, Compensation and Nominating Committee has the mandate to provide guidance to the Board in determining the key compensation and human resource policies. It oversees the Company's Stock Incentive Plan, the Stock Appreciation Rights (SARs) Plan and the Employee Share Purchase Plan. It has also recommended to, and the Board has approved, a Deferred Share Units (DSU) Plan, which will be recommended to the shareholders at the 2006 Annual General Meeting for their approval.

MANAGEMENT SYSTEMS

UTS manages its business and its role in the Partnership for potential impact on employees, contractors, neighbouring communities and for their benefit to UTS shareholders. UTS has the required systems and policies in place to ensure these interests receive top consideration.

Stewardship

UTS is committed to responsible resource development and is continually amending its stewardship policies and procedures with the goal of maintaining its Gold Level participation in the Canadian Association of Petroleum Producers' Stewardship Program. The major elements of this Stewardship Program include conducting our activities in a manner that reduces our environmental impact, protects worker and community health and safety, and recognises stakeholder interests.

At UTS, we must concurrently build shareholder value while respecting the environment, addressing concerns of our neighbours and stakeholders and providing for future needs. We support the principle of environmentally sustainable development through adaptive management, integration of environmental planning and accountability at all levels of operations and management. Among the tools we use to achieve these goals are technological innovation, community consultation and regional participation.

We are committed to conducting our business with professionalism and integrity and in a manner which ensures our activities are respectful of the health and safety of our staff and contractors, the communities in which we operate and the general public, of the natural environment, of legal and government regulatory requirement and of shareholders' expectations.

Health and Safety

UTS is committed to ensuring safe and healthy workplaces for all of its employees and contractors and to promoting a culture of personal health and safety for its employees. Our goal is to eliminate all personal injuries and health hazards resulting from our operations by maintaining awareness and seeking continuous improvements. UTS management incorporates health and safety practices into all of our operations and requires that all contractors meet or exceed our expectations for working safely. We conduct periodic audits of our contractors' activities to ensure that they meet these expectations.

UTS encourages employee health and fitness by assisting employees to undertake regular exercise. It also responds aggressively to employee concerns about their personal work environment.

Environmental Protection

UTS is committed to protecting the environment and maintaining public health and safety during all phases of our operations. We seek to achieve this goal through a set of Guiding Principles that include leadership, consultation, compliance, corrective action, emergency response, research and training.

While recognizing that Petro-Canada has the operational responsibility for the Fort Hills Project including meeting environmental protection and health and safety goals, UTS remains involved in a number of Fort McMurray regional initiatives to address cumulative environmental impacts including the Cumulative Environmental Management Association and the Regional Issues Working Group.

A UTS employee is chairing the McClelland Lake Wetland Complex Sustainability Committee. This Committee is a requirement under the regulatory approval of the Fort Hills Project and UTS remains committed to ensuring that the work of this Committee is effective and successful.

Community Relations

UTS places a high priority on working with local communities. UTS maintains relationships with the aboriginal communities in the Fort McMurray region, including participation in the Fort McKay First Nation Industrial Relations Corporation (IRC), the Mikisew Cree First Nation IRC and the Athabasca Chipewyan First Nation IRC. UTS encourages its contractors to also develop close working relationships with the aboriginal communities and to provide business and employment opportunities.

UTS held a successful community open house in Fort McMurray in early 2005 to reintroduce the Fort Hills Project and to describe our Project's plans. We also participated, jointly with Petro-Canada, in open houses in Fort McKay and Fort Chipewyan. UTS also contributed to a number of community activities, including Fort McKay Treaty Days and the Fort McMurray Tourism 2005 Gold Star Customer Service Awards.

UTS ENERGY CORPORATION
MANAGEMENT'S DISCUSSION AND ANALYSIS

As at February 22, 2006

Management's discussion and analysis ("MD&A") should be read in conjunction with the audited consolidated financial statements for the year ended December 31, 2005. Additional information concerning the Company, including its Annual Information Form, is available on SEDAR at www.sedar.com.

Overview

UTS Energy Corporation ("UTS" or the "Company") is focused on the creation of shareholder value through the production and upgrading of bitumen from oil sands deposits. The oil sands are composed primarily of sand, bitumen, mineral rich clays and water. According to the Alberta Energy and Utility Board (the "AEUB"), Alberta's in-place bitumen volume is approximately 1.6 trillion barrels, of which approximately 315 billion barrels are potentially recoverable. While not an exact comparison, according to the National Energy Board (the "NEB"), these potentially recoverable bitumen resources are approximately equivalent in size to Saudi Arabia's proved conventional oil reserves.

Fort Hills Project Approvals

UTS has a 30% working interest in oil sands leases 5, 8 and 52 (the "Fort Hills Leases") in Alberta's Athabasca oil sands region, approximately 90 kilometers north of Fort McMurray. The Fort Hills Leases are contiguous and cover an area of 46,170 acres. Petro-Canada has a 55% working interest and is operator and Teck Cominco Limited ("Teck") has a 15% working interest in the Fort Hills Leases. This development stage oil sands project is known as the "Fort Hills Project" or the "Project". Government regulators have granted the major permits and approvals required to proceed with construction and development of facilities for the production of up to 235,000 barrels per day or 190,000 barrels per day annualized average of clean bitumen from the Fort Hill Leases. On October 31, 2005, Alberta Energy approved a proposed amendment to the Fort Hills Leases allowing an initial project with a mine train of 100,000 barrels per day by 2011. The Project is governed by the partnering arrangement created by UTS, Petro-Canada and Teck (the "Partnership"). The current plan contemplates a phased development for the Project based on mining and extraction of bitumen to produce synthetic crude oil ("SCO"). The final upgrading configuration is to be determined after further investigation of market opportunities and will require further regulatory approval. UTS believes the resource base will certainly support a 190,000 barrels per calendar day project, which it plans to exploit through a phased development of the resource. However, the Partnership continues to examine the Project with a view to optimizing the resource.

Fort Hills Project Resources

On February 22, 2006, the independent reserves evaluators GLJ Petroleum Consultants Ltd. ("GLJ") reported on the Fort Hills Leases as required by National Instrument 51-101. The report, effective December 31, 2005, indicates the best estimate of contingent recoverable bitumen resources associated with the Fort Hills Leases is 3.5 billion barrels, compared to GLJ's best estimate of 2.4 billion barrels on December 31, 2004. UTS has a 30% working interest in the Project and therefore, its corresponding proportion of contingent bitumen resources is estimated to be 1.05 billion barrels, up from 0.72 billion barrels as previously estimated by GLJ.

GLJ's Estimates of Bitumen Resources (Leases 5, 8 and 52) (Billion bbls)	Fort Hills Project Resource December 2004	Fort Hills Project Resource December 2005	UTS' 30% WI in Resource December 2005
Low Estimate	0.73	2.4	0.72
Best Estimate	2.4	3.5	1.05
High Estimate	3.0	4.6	1.38

The 2005 report was not based on new technical data, but rather a reassessment of the previous data in a different commercial climate. The existing mine plan was developed in 2001-2002 by TrueNorth Energy Corporation and it was predicated on an oil price of US $20 - $22 WTI. Currently, the Partnership is developing a new mine plan with the input of Teck and that new mine plan may result in further increases to the contingent resource.

Fort Hills Partnership Oil Sands Lease Purchases

In February of 2006, UTS, Petro-Canada and Teck ("the Partners"), through Fort Hills Energy Corporation, purchased oil sands lease 437 and lease 438 adjacent to the Fort Hills Project for a combined cost of approximately $60 million. These leases will be owned by the Partners according to their respective working interests in the Project and the best use of the leases will be evaluated by the Partners. The funding of the land purchase was done by the Partnership.

Formation of the Fort Hills Partnership

The process of revising and optimizing the plan of development for the Fort Hills Project will be influenced by the introduction of Petro-Canada as an operational partner with a 55% interest and Teck with a 15% interest as the partner bringing open pit cold weather mining expertise. UTS retains a 30% interest and continues to provide strategic direction and input into the Partnership. The partners will consider a range of options before finalizing the development plan and proceeding with the necessary regulatory permits and approvals. The terms of the Partnership were set out on September 5, 2005, with the signing of the binding Memorandum of Agreement ("MOA") with Petro-Canada and Teck. The subscription agreement among UTS Energy Corporation, Petro-Canada and Teck and the existing Fort Hills entities was finalized on October 12, 2005. UTS, Petro-Canada and Teck completed the partnership process on November 30, 2005 upon the finalization of amendments to the Limited Partnership and Unanimous Shareholders' Agreements (collectively the "Partnering Agreements"). These agreements contemplate an effective contribution date of March 1, 2005, the result of which is the partners' commitment to fund from that date.

Funding of the Fort Hills Partnership

Under the terms of the Partnering Agreements, Petro-Canada has a 55% working interest in the Fort Hills Project and is committed to fund $1.55 billion of the next $2.5 billion of the Partnership expenditures; Teck has a 15% working interest in the Fort Hills Project and is committed to fund $850 million of the Partnership expenditures; UTS has a 30% working interest and is committed to fund $100 million of the next $2.5 billion of the Partnership expenditures. After the first $2.5 billion of spending has been reached, further costs and expenses incurred will be funded by the partners on the basis of their working interests. UTS expects that the spending for the Fort Hills Project will reach $2.5 billion sometime in the first quarter of 2009 and as such, UTS is currently fully funded until that time. Also included in the Partnering Agreements is the right of all parties to nominate production from projects other than the Fort Hills Project into the upgrader and the right for all parties to propose an expansion to the upgrader up to their respective interests in the Partnership.

The following table summarizes the committed funding and earned interests attributable to the revised Partnering Agreements. As indicated in the table the Partnership's incurred expenditures are $66.4 million from March 1, 2005 to December 31, 2005 with UTS contributing cash of $2.7 million or 4% of the spending. Until the Partnership funds $2.5 billion to the Project, UTS' 4% contribution will be $100 million, which UTS currently has in its treasury.

(C $ millions except percentages)	Partner Interest	Earn in	Commitments	Earn in Percent	Partnership Incurred Expenditures
Petro-Canada (operator)	55%	300	1,550	62%	41.2
Teck Cominco Limited	15%	350	850	34%	22.5
UTS Energy Corporation	30%	100	100	4%	2.7
Total	100%	750	2,500	100%	66.4

Strategic Value of the Fort Hills Partnership

The formation and funding of the Partnership among Petro-Canada, Teck and UTS have created a strong strategic alliance which should significantly foster and strengthen the development and execution of the Fort Hills Project. Petro-Canada has significant downstream expertise in project execution, and most importantly long term capability in operations. Teck has extensive cold weather open pit mining expertise, procurement leverage, a proven track record executing mining management processes, well developed maintenance procedures and has consistently demonstrated the ability to design, develop and operate mines in a cost effective safe and environmentally responsible manner. Both Petro-Canada and Teck provide financial strength, the ability to reduce Project execution risk, and provide operational cost efficiencies. UTS has facilitated the development of a strong partnership with technical expertise and financial strength for building a successful oil sands mining, extraction and upgrading operation.

Timeline for Current Fort Hills Partnership

On July 9, 2004, the Company obtained, via a share purchase, the remaining 78% interest in the Fort Hills Partnership (the "Acquisition") for $125 million or $0.06 per resource barrel.

On April 22, 2005, Petro-Canada entered the Fort Hills Partnership effective March 1, 2005, allowing Petro-Canada an earn in of 60% working interest with a spending commitment of $900 million to fund UTS' capital of $300 million or $0.18 per resource barrel.

On September 5, 2005, the Company created a further strategic alliance, agreeing that Teck would join the Partnership for an earn in of 15% working interest with a spending commitment of $850 million. As part of the 15% working interest that Teck will earn in for, Teck will contribute a total of $350 million of UTS' capital costs in two separate transactions for an average of $1.25 per resource barrel. These transactions closed on November 30, 2005 upon the finalization of amendments to the Partnering Agreements.

The dollars per resource barrel calculations, shown above, are based on the volume associated with the existing mine plan of 2.8 billion barrels.

On January 26, 2006, Fort Hills Energy Corporation announced plans to build its oil sands upgrading facility in Sturgeon County, approximately 40 kilometres northeast of Edmonton, Alberta. The upgrading complex will be built on approximately 1,800 hectares of land that Fort Hills Energy Corporation has targeted in an area zoned for heavy industrial development. The upgrader will process bitumen from the Fort Hills oil sands project, 90 kilometres north of Fort McMurray, into light synthetic crude oil ready for refining into consumer products such as gasoline and diesel. Fort Hills Energy Corporation will apply for regulatory approval for the upgrader late this year or early in 2007 pending further consultation and planning. The mine portion of the project is currently approved for up to 190,000 barrels per day of bitumen production. A preliminary cost estimate will be announced later this year when the project scope and development plan is finalized with the Design Basis Memorandum ("DBM").

Oil Sands Lease Holdings

Fort Hills Project

UTS has a 30% interest in the Fort Hills Project and presently owns 30% of 46,170 acres or 13,851 acres. The Fort Hills Leases have approximately 1,000 core wells as a basis for the 2002 mine plan. Teck is presently re-evaluating the mine plan to reflect higher oil prices and a corresponding higher total volume to bitumen-in-place ratio ("TV:BIP"). The existing approved mine plan uses a TV:BIP cut-off ratio of 12:1 which reflected the oil price and economic conditions in 2001/02 and the AEUB requirement to mine to that limit. With higher oil prices, a TV:BIP ratio of greater than 12:1 will be considered which will allow the incorporation of previously uneconomic isolated ore bodies. For example, a higher TV:BIP cut-off ratio of 16:1 would translate into an average ratio of approximately 10.1:1 for the entire mine plan. The revised mine plan should be completed by the third quarter of 2006.

Fort Hills Partnership Lease Purchases

On February 8, 2006 Fort Hills Energy Corporation was the successful bidder on two parcels of land located adjacent to the current leases. Oil sands lease 438 was purchased for $48 million or $22,092 per hectare and lease 437 was purchased for $12 million or $3,876 per hectare for a total of $60 million. Under the terms of the Partnering Agreements, UTS' share of the cost was $2.4 million or 4% of the expenditure while retaining a 30% ownership in the new leases. Leases 437 and 438 have yet to be core drilled and are currently not part of the approved project and, accordingly, any further developments would be dependent upon regulatory approval.

UTS Oil Sands Lease Purchases

UTS owns 100% of oil sands lease 14 to the west of the Athabasca River. As part of the terms of Teck joining the Fort Hills Project, UTS agreed to grant a conditional right to participate for up to 50% of lease 14 to Teck. The condition related to the determination of the best use of lease 14 was at the sole discretion of UTS. However, subsequent to the granting of that right, UTS and Teck decided to further venture together and purchase oil sands lease 311, a lease to the north of, but not adjacent to, lease 14. The purchase price was approximately $6.1 million and Teck covered the costs for both itself and UTS. As consideration for that, UTS agreed to remove the condition associated with the right to participate on lease 14. As it currently stands, Teck may opt to participate in lease 14 for up to 50% at fair market value, to be determined at the time of exercise of that right. When Teck elects to participate or not to participate, then UTS will repay to Teck 50% of the purchase price of lease 311 minus $2.5 million in development costs. UTS will attempt to core drill lease 311 during the winter of 2006.

UTS drilled 28 core wells on lease 14 in the first quarter of 2006. These results are being evaluated with estimated resource results expected by the second quarter of 2006.

UTS drilled 5 core wells on lease 634, which was purchased for $256,599 ($501 per hectare) in September 2005. This lease is adjacent to lease 438 and discussions are underway to finalize a formal agreement to contribute the land acquisition and drilling costs, totalling approximately $1 million, into the Fort Hills Partnership.

Oil Sands Leases	Total Acreage	UTS Working Interest	UTS Acreage	UTS Hectares	Core Drilling
Fort Hills Partnership					
Leases 5, 8 & 52					
(Fort Hills Project)	46,170	30%	13,851	5,605	Approximately 1,000 core wells drilled
Lease 438	5,377	30%	1,613	653	to be drilled and evaluated
Lease 437	7,591	30%	2,277	922	to be drilled and evaluated
	59,138	30%	17,741	7,180	
UTS					
Lease 14	7,067	100%	7,067	2,860	28 core wells drilled
Lease 634 (1)	1,280	100%	1,280	518	5 core wells drilled
Lease 311	11,520	50%	5,760	2,331	to be drilled & evaluated
	19,867	71%	14,107	5,709	
Total Leases	79,005	40%	31,848	12,889	

Note:

(1) This lease is adjacent to lease 438 and discussions are underway to finalize a formal agreement to contribute the land acquisition and drilling costs, totalling approximately $1 million, into the Fort Hills Partnership.

Current Operations

UTS is a development stage enterprise whose main activities are the development of its interests in the Fort Hills Project, leases 437 and 438, which were acquired by the Partnership, its wholly owned oil sands leases 14 and 634, and a 50% working interest in lease 311 located on the west side of the Athabasca River, north west of the Project. Thus, at this time, UTS does not have any production revenue from its other interest lands, and will not, until production commences at the Project. The Company's financial results are reported in Canadian dollars based on Canadian generally accepted accounting principles.

UTS' net loss for the quarter ended December 31, 2005, was $2,925,753 or $0.01 per share, compared with a net loss of $704,179 or $0.01 per share for the same period in 2004. The year-to-date net loss was $6,577,344 or $0.02 per share, compared with a loss of $2,777,996 or $0.01 per share for the same period in 2004. Significant items included in the determination of the net loss and the changes between the comparative periods are described below.

Interest income increased in the quarter compared with the corresponding period in 2004 due to increased cash and short term deposit balances held as a result of the exercise of outstanding warrants which had been issued as part of the July 2004 public offering financing. Interest income in 2005 increased over 2004 as a result of higher cash balances held during the year.

General and administrative expenses ("G&A") pertain solely to the Company's corporate operating expense. G&A in 2005 totalled $8,123,527 compared to $2,781,923 for the year ended December 31, 2004. The increase in G&A reflected a corresponding increase in the overall level of corporate activity due to the reactivation of the Fort Hills Project in 2005, relocation of its corporate offices to larger office space, and an increased number of staff and associated salaries, benefits and bonuses, compared to the corresponding period in 2004 during which the development of the Project was suspended indefinitely. With the introduction of Petro-Canada as operator of the Fort Hills Project, the extent to which the Company is able to capitalize G&A to the Project has been reduced. It is estimated that approximately $2 million to $3 million of additional UTS' G&A would have been capitalized under UTS' operatorship. G&A for the quarter ended December 31, 2005, totalled $3,602,309 compared to $718,886 for the same period in 2004 due to the renewed development of the Project and increased staffing and office costs.

The 2004 Fort Hills Project operations expense represents the Company's share of costs, prior to completion of the Acquisition, for the care and custody of the Fort Hills Leases and for the fulfillment of administrative requirements for the Fort Hills Project's regulatory approvals. Subsequent to the Acquisition and reactivation of the Fort Hills Project, these costs have been capitalized as costs of development. Prospectively, all direct costs incurred to develop the Fort Hills Project prior to commencement of production will be capitalized.

The current portion of the provision for income taxes pertains to Federal Large Corporations Tax. The future portion of the provision for income taxes results from the recognition of a change in the contingent future income tax liability on the difference between the financial statement value of the investment in the Company's assets and respective tax values.

The following table provides a comparison of anticipated and actual use of proceeds from equity financings completed during 2005.

	December 8, 2005
Gross proceeds of financing	$ 8,200,005
Use of proceeds:	
To fund Canadian Exploration Expenses renounced to participants on a flow through basis	
Estimated	8,200,005
Actual	8,200,005

These funds are being utilized for funding exploration activities outside the Fort Hills Project including, but not limited to, core drilling on lease 14.

Selected Financial Information

Year ended December 31	2005	2004	2003
Total assets	**$ 368,777,064**	$ 306,502,583	$ 52,102,465
Total long-term financial liabilities	**619,221**	1,929,462	396,660
Total revenues	**2,041,413**	372,996	99,777
Cash dividends declared	**Nil**	Nil	Nil
Net loss from continuing operations:			
Total	**6,577,344**	2,777,996	1,755,665
Per share basis	**0.02**	0.01	0.02
Diluted per share basis	**0.02**	0.01	0.02
Net loss:			
Total	**6,577,344**	2,777,996	1,755,665
Per share basis	**0.02**	0.01	0.02
Diluted per share basis	**0.02**	0.01	0.02

Total assets have increased over the last two years, primarily as a result of additional funds raised by the Company through four financings, the net proceeds of which total approximately $248 million of which $125 million was utilized to purchase the remaining 78% interest in the Fort Hills oil sands project that the Company did not own. The recording of the purchase in 2004 was tax effected, resulting in an additional increase in asset value of $63 million.

Revenues, comprised solely of interest income earned on funds on deposit, have increased over the last three years due to the additional funds injected as a result of the financings completed over the last two years.

Long term financial liabilities, comprised of UTS' share of the asset retirement obligation associated with the Fort Hills Leases, increased in 2004 as a result of UTS' 100% ownership percentage at December 31, 2004. The decrease in 2005 reflects UTS' decreased percentage interest in the Fort Hills Project from 100% to 30%.

The increase in net losses over the last three years occurred primarily as a result of increased G&A costs incurred by the Company due to an increase in the overall level of corporate activity and reactivation of the Project and UTS' other activities.

Selected quarterly financial information of the Company for the last eight quarters follows.

Quarter ended	Dec 31 2005	Sept 30 2005	Jun 30 2005	Mar 31 2005	Dec 31 2004	Sept 30 2004	Jun 30 2004	Mar 31 2004
Total revenue (1)	**$ 687,604**	**$ 636,799**	**$ 402,048**	**$ 314,962**	$ 114,047	$ 95,159	$ 150,592	$ 13,198
Loss from continuing operations:								
Total	**(2,925,753)**	**(2,257,455)**	**(880,503)**	**(513,633)**	(704,179)	(879,097)	(712,764)	(481,956)
Per share basis	**(0.008)**	**(0.006)**	**(0.002)**	**(0.001)**	(0.002)	(0.003)	(0.009)	(0.006)
Diluted per share basis	**(0.007)**	**(0.005)**	**(0.002)**	**(0.001)**	(0.002)	(0.003)	(0.009)	(0.006)
Net loss:								
Total	**(2,925,753)**	**(2,257,455)**	**(880,503)**	**(513,633)**	(704,179)	(879,097)	(712,764)	(481,956)
Per share basis	**(0.008)**	**(0.006)**	**(0.002)**	**(0.001)**	(0.002)	(0.003)	(0.009)	(0.006)
Diluted per share basis	**(0.007)**	**(0.005)**	**(0.002)**	**(0.001)**	(0.002)	(0.003)	(0.009)	(0.006)

Note:

(1) Reflects interest income. UTS is a development stage enterprise and does not have any production revenue and will not, until bitumen production commences in 2011.

Investment in Property, Plant and Equipment

Property, plant and equipment ("PP&E") additions totalled $10,684,407 in 2005 and $3,858,604 in 2004. The PP&E additions for the Fort Hills Project in 2005 and 2004 totalled $7,448,606 and $3,496,037, respectively. Included in the Fort Hills additions are non-cash amounts, primarily adjustment of UTS' share of the asset retirement obligation associated with the Fort Hills Project, totalling ($832,240) and $76,972 for 2005 and 2004, respectively. Capital expenditures in 2005 for the Fort Hills Project were comprised of bitumen resource definition, mine planning, engineering design, upgrading option studies, environmental assessments, legal fees, regulatory permitting, site restoration cost and construction of the BITMIN demonstration plant. UTS' corporate capital asset expenditures for office equipment totalled $146,683 in 2005 and $362,567 in 2004. Costs incurred associated with other lease interests held outside the Fort Hills Project totalled $3,089,118 and $Nil in 2005 and 2004, respectively and consisted of the purchase of lease 634 in September 2005 and lease 14 drilling which commenced in 2005 and continues into 2006. The Company continues to actively pursue the development of these and other related business opportunities.

With the introduction of Petro-Canada and Teck, the future development of the Fort Hills Project will depend on a tri-party decision making process. Certain decisions regarding Project development and operations will require a majority vote of the partners and some fundamental decisions will require a special vote (comprising at least two partners with a combined interest of 62%) and in some cases, unanimity. Future plans of the Project will depend on agreement on fundamental decisions of the Partners to the Project. The Partners have agreed to work co-operatively to further the ultimate goal of building and operating an integrated mining and upgrading development to produce and upgrade approximately 190,000 barrels per day of bitumen from the Fort Hills Leases comprising the Project. Initially, however, the parties had committed to construction of a mine train to produce approximately 50,000 barrels per day of bitumen by 2009 in order to satisfy certain requirements set forth in the development plan approved by the Minister of Energy as a condition of the Fort Hills Leases. Recognizing that there may be significant potential benefits to the Project and to the Province of Alberta arising from a larger initial mining and upgrading project, the Partners sought and obtained approval for an initial mine train to produce approximately 100,000 barrels per day of bitumen by 2011. The interim milestones were also amended to match the amended mine plan. The Partners continue to be contractually committed to take all steps necessary to retain the Fort Hills Leases.

UTS believes that the Fort Hills resource base will support a project with a design capacity of at least 235,000 barrels of bitumen per day (annualized average production of 190,000 barrels per day), which can be achieved through a phased development of the resource. UTS, Petro-Canada and Teck intend to continue to revise and optimize the plan of development for the Project over the next 12 months to achieve or exceed this production rate.

Summary of Contractual Obligations

The long term obligations comprise long term liabilities of the Company with indeterminate settlement dates.

		Payments Due By Period			
Contractual Obligations	Total	under 1 year	1 – 3 years	4 – 5 years	after 5 years
Long term debt	Nil	Nil	Nil	Nil	Nil
Capital lease obligations	Nil	Nil	Nil	Nil	Nil
Operating leases	2,157,000	557,000	1,155,000	445,000	Nil
Purchase obligations	Nil	Nil	Nil	Nil	Nil
Other long term obligations (1) (2)	67,093,000	Nil	Nil	Nil	67,093,000
Total contractual obligations	69,250,000	557,000	1,155,000	445,000	67,093,000

Note:

(1) *The Company is responsible for its 30% share of the future site restoration costs of the Fort Hills Project. Such costs are recognized for financial statement purposes on a present value basis over the life of the Fort Hills Project. The undiscounted amount of $1.5 million is included in the table.*

(2) *Future income taxes of $65.593 million are included, the timing of payment of which, if ever, is uncertain.*

Outstanding Share Data

The following shares were outstanding at February 22, 2006:

	Number of Shares	Consideration
Outstanding, December 31, 2005	424,419,700	$ 311,512,730
Issued on exercise of incentive stock options (1)	304,373	249,727
Outstanding February 22, 2006	424,724,073	$ 311,762,457

Note:

(1) Senior management exercised the above incentive stock options and retained ownership of the common shares.

The following equity awards, entitling the holders to acquire common shares of the Company, were outstanding at February 22, 2006:

	Range of Exercise Price	Weighted Average Exercise Price	Number Outstanding	Number Exercisable
Incentive Stock Options (1)	$ 0.30-4.57	$ 1.30	8,471,427	2,712,958
Share Appreciation Rights (2)	$ 0.30-4.60	$ 0.98	951,600	915,879

Note:

(1) The shareholders of the Company approved, at the Annual and Special Meeting of shareholders held May 26, 2005, an amendment to the Company's Incentive Stock Option Plan ("Option Plan") to increase the maximum number of common shares which may be issued pursuant to the Option Plan from 12.5 million to 20 million common shares.

(2) The shareholders of the Company approved, at the Annual and Special Meeting of shareholders held May 26, 2005, an amendment to the Company's Share Appreciation Rights Plan (the "SAR Plan") to increase the maximum number of common shares which may be issued pursuant to the SAR Plan from 2.5 million to 3 million common shares.

On February 25, 2005, the Company adopted a Shareholder Rights Plan (the "Plan") which was confirmed by UTS' shareholders at the Annual and Special Meeting of shareholders held May 26, 2005. The Plan was implemented by way of a Shareholder Rights Agreement (the "Agreement") dated effective February 25, 2005, between the Company and CIBC Mellon Trust Company, as rights agent, and amended and restated March 17, 2005. In connection with the implementation of the Plan, the Board of Directors authorized the issuance of one right in respect of each common share of the Company outstanding at the close of business on February 25, 2005, and one right in respect of each common share to be issued thereafter. Generally the Plan provides that if a person, or a group acting jointly or in concert, acquires (other than pursuant to an exemption available under the Plan) beneficial ownership of 20% or more of the common shares, the rights will separate from the common shares and permit holders of rights (other than the acquiring person) to purchase UTS common shares at a substantial discount to market price. At any time prior to the rights becoming exercisable, the Board of Directors may waive the operation of the Plan with respect to certain events before they occur. A shareholder or other interested party may obtain a copy of the Agreement by contacting Investor Relations, UTS Energy Corporation, 1000, 350 – 7th Avenue SW, Calgary, Alberta, T2P 3N9 or by accessing the Corporation's publicly filed documents, including the Agreement, on SEDAR at www.sedar.com.

Addition of UTS to the Composite Index

On March 21, 2005, UTS was added to the S&P/TSX Composite Index with a weighting of 0.092 percent and a relative rank of 153 out of 227. At December 30, 2005, UTS had a weighting in the index of 0.155 percent and a relative rank of 105 out of 278. Currently, UTS has a weighting in the Provisional Composite Index of 0.219 percent and a relative rank of 87 out of 274 as at February 22, 2006. The Provisional Composite Index will become the Composite Index upon the full inclusion of the eligible trusts to the index at the close of market March 17, 2006.

Critical Accounting Estimates

Asset Retirement Obligation

The Company has adopted the Canadian accounting standard relating to asset retirement obligations in respect of the oil sands leases comprising the Project. The Company has recorded its 30% share of the estimated asset retirement obligation pertaining to the eventual reclamation of the disturbance to the Fort Hills Project's leases. Using an estimated life of the Project of 43 years, an inflation factor of 4% and a risk-free interest rate discount factor of 7%, the estimated present value of the Company's share of site restoration costs of the Project, is as follows:

Balance, December 31, 2004	$ 1,929,462
Accretion during the year	87,266
Reduced interest in the Fort Hills Project	(1,397,507)
Balance, December 31, 2005	$ 619,221

Financial Instruments

The carrying values of the Company's financial instruments, including cash and short-term deposits, accounts receivable, accounts payable and accrued liabilities approximate their fair values because of their short-term nature.

Control Certification

UTS has designed disclosure controls and procedures to provide reasonable assurance that material information related to UTS is included in the Company's annual filings. In addition, UTS has evaluated the effectiveness of the Company's disclosure controls and procedures as of the end of the filing period of December 31, 2005 and concluded that these controls are effective.

Liquidity and Financial Resources

At December 31, 2005, cash on hand amounted to $104 million. During 2005, proceeds from the exercise of maturing share purchase warrants provided the Company with $50 million net working capital. Additionally, the 7 million common share purchase warrants, exercisable at $0.75 per common share, issued as part of the July 9, 2004 Fort Hills Acquisition, were exercised on August 5, 2005 for cash proceeds totalling $5.25 million. On December 8, 2005, the Company completed its private placement of 1,490,910 common shares on a "flow-through" basis at a price of $5.50 per share for aggregate gross proceeds of $8.2 million. The Company currently has approximately $103 million in cash and, based on the current Project spend rate, is funded to the first quarter of 2009.

A Canadian chartered bank has extended to the Company a demand credit facility of up to $5,000,000. The letter of credit previously posted in favour of Alberta Environment in respect of future site reclamation for the Fort Hills Project has been cancelled and has been replaced with a letter of credit posted by the operator of the Fort Hills Project.

Outlook

The Company currently has approximately $103 million in cash and short-term deposits, sufficient financial resources to fund its working capital requirements for its share of development costs of the Project, based on the current project spend rate, and other corporate activities to the first quarter of 2009.

The development of the Project beyond 2009 will require the Company to continue to fund its working capital requirements, including capital and operating costs of the Fort Hills Project, through new sources. The significant sources of additional funds potentially available to the Company are borrowings in the banking/bond market and raising equity capital, if required.

The Company's accomplishments were:

- ✓ UTS created outstanding shareholder value with the successful execution of its partnership strategy by bringing Petro-Canada and Teck into the Partnership, and with it, another $650 million of Project funding;
- ✓ the BITMIN demonstration plant in operation by the fourth quarter of 2005;
- ✓ key decisions with respect to the upgrader's location and technology announced in the first quarter of 2006;

✓ UTS land acquisitions in the third and fourth quarter of 2005; and

✓ Fort Hills Partnership land acquisitions in the first quarter of 2006 – contiguous to the Project.

The Company's near term milestones are:

- to analyze the core drilling of leases 14 and 634 by the end of the second quarter of 2006;
- to execute the core drilling of lease 311 in the first quarter of 2006 (weather permitting);
- to revise the Fort Hills mine plan in the second half of 2006; and
- to select the Fort Hills Project concept by the second or third quarter of 2006.

Subsequent Events

On January 27, 2006, the Federal Court of Appeal released a decision in favour of Fort Hills Energy Corporation, via its predecessor TrueNorth Energy Corporation and the Minister of Fisheries and Oceans (the "Respondent"), stating that the Minister of Fisheries and Oceans correctly scoped the Project. This matter was on appeal from the federal trial decision, where on September 18, 2004, the trial judge also found in favour of the Respondents. In its January 27, 2006 decision, the Federal Court of Appeal found that due to the fact the Alberta provincial authorities conducted an environmental assessment, it would have been inefficient for two assessments to be performed, one at the provincial and one at the federal level. As such, it was both legally appropriate and efficient from a policy perspective for the Minister of Fisheries and Oceans to rely on Alberta's performance of an environmental assessment. The applicants may appeal further by seeking the leave of the Supreme Court of Canada. The Company has no indication whether or not the Applicants will seek further leave but if they choose to do so, they must apply by March 28, 2006.

At the February 8, 2006 crown land sale, lease 438 was purchased by the Fort Hills Partnership for $48 million or $22,092 per hectare and lease 437 was purchased for $12 million or $3,876 per hectare for a total of $60 million. UTS funded its 30% interest in the leases by paying 4%, or approximately $2.4 million, of the purchase price.

Risk Factors

UTS' primary asset is its investment in the Fort Hills Project. The Fort Hills Project is a development stage oil sands mining, extraction and upgrading project. As such, the Company's operating and capital expenditures have been and will continue to be for the foreseeable future, directly or indirectly related to the design, development, construction, commissioning and operation of such oil sands mining, extraction and upgrading project.

UTS retains other assets including 100% ownership of lease 14 on the west side of the Athabasca River and 50% of lease 311, as well as 100% of lease 634. Previously, Teck had a right to participate in lease 14 up to a maximum of 50% at fair market value, conditional upon UTS' determination that the best use of lease 14 is as a satellite mine to the Fort Hills Project. Pursuant to an agreement, Teck was granted an unconditional right to participate for up to 50% of lease 14 at fair market value.

Lease 14 was core drilled in the first quarter of 2006 and those results are under review. UTS will repay Teck its 50% share of the purchase price for lease 311 less $2.5 million in respect of certain initial costs for lease 14 when Teck elects to participate or not to participate in respect of lease 14.

Significant steps must be taken by the Project operator before commercial bitumen extraction operations or bitumen upgrading operations are commenced at the Fort Hills Project. If it is unanimously determined that the Project will not proceed, each of the parties is responsible to pay for their committed share of the first $2.5 billion spent, that is Petro-Canada must pay its $1.55 billion, Teck must pay its $850 million and UTS must pay its $100 million. If the Project is abandoned, UTS will be entitled to the remaining amount of Petro-Canada's earn in of $300 million and Teck's earn in of $350 million. There are risks that the design, development, construction, commissioning or commencement of operations of the Fort Hills Project may experience delays, interruptions of development or construction activities, and/or increased costs.

The risks to obtaining approval of the upgrader are not considered to be major risks. The most significant of those risks are expected from the impact of emissions on the local air shed in view of the

number of proposed developments, and the potential objections of landowners, both agricultural and others. The former is being addressed by obtaining membership into the Fort Air Partnership to allow co-ordination with other emitters and to understand cumulative impacts. The latter will require sympathetic management of stakeholder concerns. It is also recognized that long term storage of coke on site would be undesirable to stakeholders and the Project will therefore work to secure a coke disposition solution that eliminates this risk. The regulatory process is on the critical path for project development and, as such, timely approval will be required to ensure construction can commence on schedule. Given the decision to locate the upgrading facility at Sturgeon County, the Partnership will have to consider the method of transporting the bitumen from the Fort Hills Leases to the upgrading facility. Currently, the Partnership is considering a variety of solutions and does not consider that this will be a major barrier to the progress of the Project.

There can be no assurance that development or construction activities will commence in accordance with UTS' expectations. Following commencement of development, construction and operations, the Project's schedules may not proceed as planned; there may be delays, various changes may be made prior to completing the Fort Hills Project, and the Fort Hills Project may not be completed on time or on budget.

The Fort Hills Project faces risks inherent to the achievement of its objectives, technological risk and financial risk, over which the Company has little or no control. In addition to these inherent risks, the Fort Hills Project (and the working interest partners) is faced with risks associated with commodity prices, exchange rates, political factors, government regulation and general economic conditions.

Future development of the Fort Hills Project depends on satisfying the conditions of the current regulatory approvals or on amendments thereto and additional regulatory approvals to facilitate a revised scope of future development. The regulatory approval process can involve stakeholder consultation, environmental impact assessments and public hearings, among other things. Failure to obtain the necessary regulatory approvals or amendments to existing regulatory approvals, or failure to obtain them on a timely basis or with acceptable terms and conditions, could result in delays and abandonment or further restructuring of the Fort Hills Project and increased costs, all of which could have a material adverse effect on UTS and the Project.

Significant amounts of financing will be required to (i) fund costs associated with the design, development and construction of the Fort Hills Project, including costs associated with satisfying the conditions of the regulatory approvals, and amendments to the regulatory approvals may be necessary to facilitate a revised scope of future development; (ii) fund costs associated with the development and construction of the Fort Hills Project so that commercial bitumen extraction operations or upgrader operations are commenced. Prior to commencing operations, UTS intends to finance such capital requirements from sales of equity securities, borrowings and through its partnership earn in arrangement with Petro-Canada and Teck. Capital requirements are subject to capital market risks, primarily the availability and cost of capital. There can be no assurance that sufficient capital, in excess of the capital committed by Petro-Canada and Teck to fund UTS' share of capital costs, will be available to UTS on acceptable terms. UTS' failure to provide funding would result in a corresponding reduction in its ownership interest. In the event of non-payment by UTS of its share of costs and expenses for the Project, the non-defaulting partner will have the option, after a cure period, to (i) purchase the defaulting partners interest for 80% of the capital costs paid and accruable to the date of default, or (ii) after 80% of the capital costs of the initial phase of development of the Project have been incurred, the defaulting partners interest in the Project may be reduced based upon an established formula.

The Company does not have a source of revenue at the present time. If production is commenced at the Fort Hills Project and no other revenue sources are available to the Company, 100% of UTS' revenues will be derived from oil sands operations. Further, any such delays will likely increase the costs for development of the Fort Hills Project and may require additional financing.

FORWARD-LOOKING STATEMENTS

This report contains certain "forward-looking statements" within the meaning of such statements under applicable securities law. Forward-looking statements are frequently characterized by words such as "plan", "expect", "project", "intend", "believe", "anticipate", "estimate" and other similar words, or statements that certain events or conditions "may" or "will" occur. Forward-looking statements in this report include, but are not limited to: capital investment levels relating to the Project, the proposed plan of development for the Project and the timing and costs associated therewith, production capacity and levels and the timing of achieving such capacity and levels, forecast working capital, anticipated sources of financing, timing for completion and results of the partnering arrangement with Petro-Canada and Teck, and estimates of reserves and resources. Forward-looking statements are based on the opinions and estimates of management at the date the statements are made, and are subject to a variety of risks and uncertainties and other factors that could cause actual events or results to differ materially from those projected in the forward-looking statements. These factors include the inherent risks involved in a development stage oil sands mining and extraction enterprise. The Company faces uncertainties, including those associated with resource definition, the timeline to production, the possibility of Fort Hills Project cost overruns or unanticipated costs and expenses, regulatory approvals, fluctuating commodity prices and currency exchange rates, and the ability to access sufficient capital from external sources to finance future development. Certain forward-looking information contained in this report such as future development plans, operating and capital expenditures, working capital and production are dependent upon the partnering arrangement with Petro-Canada and Teck, re-scoping of the Fort Hills Project to reflect a staged development, the extent and timing of any additional regulatory approvals related thereto, completion of construction and commencement of commercial operations. As a consequence, actual results may differ, and may differ materially from those anticipated in the forward-looking statements. The reader is cautioned not to place undue reliance on forward-looking statements, as there can be no assurance that such plans, intentions or expectations upon which they are based will occur.

AUDITORS' REPORT

We have audited the consolidated balance sheets of UTS Energy Corporation as at December 31, 2005 and 2004 and the consolidated statements of operations and deficit and cash flows for the years then ended. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audit.

We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 2005 and 2004 and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

KPMG LLP

Chartered Accountants
Calgary, Canada
February 22, 2006

MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL REPORTING

Management is responsible for all information contained in this annual report. The consolidated financial statements have been prepared in accordance with Canadian generally accepted accounting principles and include amounts based on management's informed judgements and estimates. The financial and operational information included in this annual report is consistent with that contained in the consolidated financial statements in all material respects.

External auditors, appointed by the shareholders, have independently examined the consolidated financial statements in accordance with Canadian generally accepted auditing standards. They have performed such tests, as they deemed necessary to enable them to express an opinion on the consolidated financial statements.

The Board of Directors has appointed an Audit Committee, consisting of three directors who are neither employees nor officers of the Company. It meets regularly with management and the external auditors to discuss the financial reporting process, auditing and other financial reporting matters. In addition, the Audit Committee recommends the appointment of the Company's external auditors, who are elected annually by the Company's shareholders. The Audit Committee has reviewed the consolidated financial statements with management and the external auditors. The Board of Directors has approved the consolidated financial statements on the recommendation of the Audit Committee and the contents of the annual report.

William Roach

Dr. William J. F. Roach, P. Eng.
President and Chief Executive Officer

Wayne I. Bobye, C.A.
Vice President and Chief Financial Officer

Calgary, Canada
March 1, 2005

UTS Energy Corporation

CONSOLIDATED BALANCE SHEETS

As at December 31,	2005	2004
ASSETS		
Current Assets		
Cash and short-term deposits	$ 104,522,025	$ 58,739,053
Accounts receivable	6,883,005	523,296
Other	–	420,694
	111,405,030	59,683,043
Property, Plant and Equipment *(note 3)*	257,372,034	246,819,540
	$ 368,777,064	$ 306,502,583
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current Liabilities		
Accounts payable and accrued liabilities	$ 6,589,936	$ 2,698,415
Future Income Taxes *(note 4)*	65,593,000	65,593,000
Asset Retirement Obligation *(note 5)*	619,221	1,929,462
	72,802,157	70,220,877
Shareholders' Equity		
Share capital *(note 6)*	311,512,730	242,676,199
Acquisition warrants *(note 2)*	–	4,000,000
Contributed surplus	2,466,446	1,032,432
Deficit	(18,004,269)	(11,426,925)
	295,974,907	236,281,706
Commitments *(note 10)*		
Contingencies *(note 11)*		
	$ 368,777,064	$ 306,502,583

See accompanying notes to consolidated financial statements

On behalf of the Board:

Bruce C. Galloway
Director

Douglas D. Baldwin
Director

UTS Energy Corporation

CONSOLIDATED STATEMENTS OF OPERATIONS AND DEFICIT

Year ended December 31,	2005	2004
Income		
Interest	$ 2,041,413	$ 372,996
Expenses		
General and administrative	8,123,527	2,781,923
Fort Hills scoping and consulting	–	89,808
Fort Hills operations	–	69,300
Amortization	131,913	104,915
	8,255,440	3,045,946
Loss before income taxes	(6,214,027)	(2,672,950)
Income taxes *(note 4)*		
Current	363,317	496,046
Future (reduction)	–	(391,000)
	363,317	105,046
Net loss	(6,577,344)	(2,777,996)
Deficit, beginning of year	(11,426,925)	(8,648,929)
Deficit, end of year	$ (18,004,269)	$ (11,426,925)
Net Loss per share – basic	$ (0.02)	$ (0.01)
– diluted	$ (0.02)	$ (0.01)
Weighted average common shares outstanding – basic	387,808,518	298,657,537
– diluted	393,935,230	312,861,916

See accompanying notes to consolidated financial statements

UTS Energy Corporation

CONSOLIDATED STATEMENTS OF CASH FLOW

Year ended December 31,	2005	2004
Cash Provided by (Used in):		
Operations		
Net loss	$ (6,577,344)	$ (2,777,996)
Items not involving cash:		
Future income taxes	–	(391,000)
Stock-based compensation cost	1,253,895	982,532
Amortization	131,913	104,915
	(5,191,536)	(2,081,549)
Change in non-cash working capital	853,697	535,439
	(4,337,839)	(1,546,110)
Investing		
Additions to property, plant and equipment	(11,516,647)	(3,781,632)
Acquisition of additional Fort Hills interests	–	(125,121,328)
Change in non-cash working capital	(2,678,193)	558,834
	(14,194,840)	(128,344,126)
Financing		
Issue of common shares	64,315,651	186,053,915
Increase in cash and short-term deposits	45,782,972	56,163,679
Cash and short-term deposits, beginning of year	58,739,053	2,575,374
Cash and short-term deposits, end of year	$ 104,522,025	$ 58,739,053
Income taxes paid	$ 940,098	$ 87,046

See accompanying notes to consolidated financial statements

UTS Energy Corporation (the "Company" or "UTS") is a development stage enterprise whose primary activity is the development of its interests in the Fort Hills Oil Sands Project ("Fort Hills Project" or "Project"), which began operations in May 1998. UTS does not have any production revenue and will not until bitumen production begins at the Fort Hills Project. The purpose of the Fort Hills Project is to develop, mine, extract and sell the recoverable clean bitumen from certain oil sands deposits underlying approximately 46,170 acres of the contiguous oil sands leases 5, 8 and 52 (the "Fort Hills Leases") in Alberta's Athabasca oil sands region approximately 90 kilometres north of Fort McMurray. Government regulators have granted the major permits and approvals required to proceed with construction and development of facilities for the production of up to 235,000 barrels per day or 190,000 barrels per day annualized of clean bitumen from these leases. These permits and approvals will require amendment to reflect the Company's proposed plan of development that is a modification to that contemplated and authorized by the existing regulatory approvals, and additional permits and approvals will be required to proceed with development including the upgrading of bitumen to synthetic crude oil.

In addition to its 30% interest in the Fort Hills Project, UTS also owns oil sands lease 14 comprising 7,067 acres, located on the west side of the Athabasca River north of the Fort Hills Project, lease 634 comprising 1,280 acres, located north of the Fort Hills Project and a 50% working interest in lease 311 comprising 11,520 acres, located slightly east of the Fort Hills Project. These three lease interests were acquired in 2005.

1. Significant Accounting Policies

a) Principles of consolidation

These consolidated financial statements include the accounts of the Company and its 30% interest in the Fort Hills Energy Limited Partnership (the "Partnership").

b) Property, Plant, and Equipment

The Company has adopted the Canadian Accounting Standard for Enterprises in the Development Stage. All direct costs relating to the development of the Fort Hills Project to date are considered pre-operating and are capitalized, including the cost of the acquisition of leases, exploration and development except for administrative costs that are not directly related to development activities. When production begins, these capitalized costs will be amortized following the unit-of-production method based on proved reserves. During the comparative period through to June 2004, development of the Fort Hills Project was suspended. All Fort Hills Project costs incurred during this period where charged to operations.

The carrying values of property, plant and equipment are not intended to reflect their future value. In particular, the future value of the property, plant and equipment of the Fort Hills Project depends on the start-up of commercial production, the ability of the Company to obtain financing and the future profitability of the Fort Hills Project. Accordingly, property, plant and equipment are assessed in each reporting period to determine if there are events or circumstances that would indicate it is unlikely such costs will be recovered in the future. If there are costs that are considered unlikely to be recovered, they are charged to earnings.

c) Asset Retirement Obligation

The Company accounts for its obligations associated with the retirement of long-lived assets and the related asset retirement costs. The standard applies to legal obligations associated with the retirement of long-lived assets that result from the acquisition, construction and development and use of the asset. The standard requires that the fair value of a liability for an asset retirement obligation be recognized in the period in which it is incurred if a reasonable estimate of fair value can be made. The fair value is added to the carrying value of the associated asset. The liability is accreted at the end of each period through charges to the carrying value of the associated asset if in a pre-operating stage, or operating expenses after the property has been developed and put into production.

d) *Income Taxes*

The Company utilizes the asset and liability method of accounting for income taxes. Under this method, future tax assets and liabilities are recognized for future tax consequences attributable to differences between the financial statement carrying value and tax basis of assets and liabilities.

Future tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on future tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the enactment date. A valuation allowance is recorded against any future income tax asset if it is more likely than not that the asset will not be realized.

e) *Stock-based compensation*

The Company accounts for stock options and share appreciation rights granted subsequent to January 1, 2002 utilizing the fair value method to calculate a fair value of the stock award granted and recording that fair value as compensation expense over the vesting period of the award with a corresponding increase in contributed surplus. Upon the exercise of these stock options and share appreciation rights, the consideration received by the Company and the contributed surplus associated with the award are credited to common shares.

f) *Per share amounts*

The Company reports per share amounts using the treasury stock method to determine the dilutive effect of stock options and other dilutive instruments. Under the treasury stock method, dilutive instruments create an impact on the dilution calculation where the current value of the dilutive instrument exceeds its exercise price.

g) *Amortization*

Amortization of property, plant and equipment of the Fort Hills Project will be provided following the unit-of-production method based on proved reserves when production begins. Office equipment and leaseholds are depreciated on a straight-line basis over the estimated service lives of the assets.

h) *Use of Estimates*

The preparation of financial statements, in conformity with generally accepted accounting principles, requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the year. Actual results could differ from these estimates.

2. Corporate Acquisition

On July 9, 2004 the Company completed the acquisition of the 78% interest in the Fort Hills Project that it did not own through the acquisition of all of the shares of Fort Hills Energy Corporation and all of the limited partnership units of the Partnership for consideration of $125 million plus common share purchase warrants to acquire 7 million common shares of the Company at $0.75 per share for a period of five years ("Acquisition Warrants").

The ascribed value of the common share purchase warrants issued using the Black-Scholes Pricing Model was $4 million.

The acquisition resulted in UTS Energy owning 100% of the Fort Hills Project. The allocation of the purchase price for the acquisition of the 78% interest in the Fort Hills Project is reflected as follows.

	July 9, 2004
Net Assets Acquired:	
Cash and short term deposits	$ 66,001
Accounts receivable	49,000
Capital assets	193,667,344
Accounts payable and accrued liabilities	(139,001)
Site restoration accrual	(1,456,015)
Future income taxes	(63,000,000)
Total Purchase Price	$ 129,187,329
Consideration:	
Cash	$ 124,975,000
Acquisition warrants	4,000,000
Acquisition costs	212,329
Total Consideration	$ 129,187,329

3. Property, Plant and Equipment

December 31,	**2005**	2004
Fort Hills Project	**$ 253,935,585**	$ 246,486,979
Other leases and development costs	**3,089,118**	–
Office equipment and leaseholds	**620,780**	474,097
	257,645,483	246,961,076
Less: Accumulated amortization	**273,449**	141,536
Net book value	**$ 257,372,034**	$ 246,819,540

4. Income Taxes

a) The provision for income tax expense differs from that which would be expected by applying the combined statutory rates. A reconciliation of the difference is as follows:

Year ended December 31,		2005		2004
Basic rate		**33.62%**		33.62%
Computed income tax (recovery) at basic rate	$	**(2,089,156)**	$	(898,600)
Increase (decrease) resulting from:				
Non deductible charges		**519,346**		212,800
Resource allowance		**363,876**		150,200
Increase in valuation allowance		**1,080,000**		535,600
Other		**125,934**		–
Adjustment to reflect change in tax rate		**–**		(391,000)
Large corporations' tax		**363,317**		496,046
	$	**363,317**	$	105,046

b) The tax effects of temporary differences that give rise to significant portions of the future tax assets and liabilities are as follows:

December 31,		2005		2004
Future tax assets:				
Net operating loss carryforwards	$	**6,207,000**	$	4,215,000
Share issue costs and other		**2,975,000**		3,887,000
Total gross future tax assets		**9,182,000**		8,102,000
Less valuation allowance		**9,182,000**		8,102,000
Net future tax assets		**–**		–
Future tax liabilities:				
Fort Hills oil sands investment		**65,593,000**		65,593,000
Total gross future tax liabilities		**65,593,000**		65,593,000
Net future tax liability	$	**65,593,000**	$	65,593,000

c) The Company's non-capital losses will expire in the following years:

2006	$	1,154,256
2007		1,163,450
2008		1,231,087
2009		2,512,649
2010		1,751,020
2014		4,238,889
2015		6,411,508
	$	18,462,859

5. Asset Retirement Obligation

The estimated future site restoration costs of the Fort Hills Project are currently estimated at $5 million. Using assumptions that estimate the life of the Fort Hills Project to be 43 years, an inflation factor of 4% and a risk-free interest rate discount factor of 7%, the fair value of the Company's 30% share of the site restoration costs has been estimated as follows:

Balance, December 30, 2003	$	396,660
Accretion during the year		76,787
Adjustment arising from purchase of 78% interest		1,456,015
Balance, December 31, 2004		1,929,462
Accretion during the year		87,266
Reduced interest in Fort Hills		(1,397,507)
Balance, December 31, 2005	$	619,221

6. Share Capital

a) Authorized:

Unlimited number of common shares without nominal or par value.

b) Issued:

Changes in capital stock are as follows:

	Number of Shares	Consideration
Issued, December 30, 2002 and 2003	75,545,421	$ 56,947,420
Issued by private placement, net of issue costs	75,500,000	49,287,462
Issued by public offering, net of issue costs	143,000,000	93,266,470
Issued by public offering, net of issue costs	48,000,000	42,870,000
Issued on exercise of share purchase options	271,084	182,500
Issued on exercise of share appreciation rights	184,653	122,347
Issued, December 31, 2004	342,501,158	$ 242,676,199
Issued on exercise of warrants – see (ii) and (iii)	78,475,079	55,282,555
Value attributed to acquisition warrants exercised	–	4,000,000
Issue of flow-through shares, net of issue costs – see (i)	1,490,910	7,756,649
Issued on exercise of share purchase options	1,700,000	1,412,916
Issued on exercise of share appreciation rights	252,553	86,527
Transfer from contributed surplus on exercise of share purchase options and share appreciation rights	–	297,884
Issued, December 31, 2005	424,419,700	$ 311,512,730

i) On December 8, 2005 the Company completed a private placement of 1,490,910 million common shares on a flow-through basis at $5.50 per share for gross proceeds of $8.2 million and net proceeds of $7.8 million after direct expenses.

ii) During 2005, substantially all of the warrants issued as part of the July 9, 2004 public offering of units entitling the holders to acquire common shares of the Company had been exercised. Of the 71.5 million warrants issued as part of the public offering, each possessing an exercise price of $0.70 per warrant and an expiry date of July 9, 2005, 24,921 warrants expired unexercised. The exercising of these warrants provided additional proceeds of $50 million to the Company.

iii) On August 5, 2005, the 7 million warrants issued as part of the acquisition of the remaining shares and units of TrueNorth Energy Corporation and TrueNorth Energy L.P., respectively, were exercised for cash proceeds of $5.25 million.

*c) **Shareholder Rights Plan***

On February 24, 2005, the Board of Directors of the Company adopted a Shareholder Rights Plan (the "Plan"). The Plan was confirmed by the Company's shareholders at the Annual and Special Meeting of shareholders held on May 26, 2005.

d) Incentive Stock Option Plan

The Company has an Incentive Stock Option Plan ("Option Plan") under which it may grant stock options ("options") to officers and employees. The shareholders of the Company approved, at the Annual and Special Meeting of shareholders held May 26, 2005, an amendment to the Option Plan to increase the maximum number of common shares which may be issued pursuant to the Option Plan from 12.5 million to 20 million common shares. The exercise price of each option is not less than the market price of the Company's common shares on the last trading day preceding the grant, and an option's maximum term is 10 years. The options may be surrendered by the holder with the consent of the Company for common shares with a value equal to the capital appreciation inherent in the option surrendered. A maximum of one-third of such options granted pursuant to the Option Plan shall be exercisable on each of the first, second and third anniversaries of the date of grant until expiry. The following activity occurred during the year ended December 31, 2005:

	Range of Exercise Price	Weighted Average Exercise Price	Options Outstanding	Options Exercisable
Outstanding, December 31, 2003	$ 0.30 – 1.25	$ 0.91	3,750,000	2,825,000
Granted	0.65 – 0.92	0.84	4,887,000	
Exercised	0.48 – 0.66	0.63	(300,000)	
Cancelled or expired	0.85 – 1.25	1.13	(160,000)	
Outstanding, December 31, 2004	0.30 – 1.25	0.88	8,177,000	2,673,333
Granted	0.95 – 4.57	2.38	2,302,300	
Exercised	0.30 – 1.25	0.83	(1,700,000)	
Outstanding, December 31, 2005	$ 0.30 – 4.57	$ 1.28	8,779,300	2,910,667

The following table summarizes information concerning options outstanding at December 31, 2005:

	Total Options Outstanding			Exercisable Options	
Range of Exercise Price	Number	Weighted Average Remaining Contractual Life (years)	Weighted Average Exercise Price	Number	Weighted Average Exercise Price
Less than $0.81	2,950,000	8.3	$ 0.72	858,334	$ 0.75
$0.81 – $1.00	2,432,000	8.9	0.92	704,000	0.91
$1.01 – $2.00	1,415,000	2.9	1.21	1,348,333	1.21
Greater than $2.00	1,982,300	9.5	2.61	–	–
	8,779,300	7.9	$ 1.28	2,910,667	$ 1.00

e) Share Appreciation Rights Plan

The Company has a Share Appreciation Rights Plan ("SAR Plan") under which it may grant share appreciation rights ("SARs") to non-executive directors. The shareholders of the Company approved, at the Annual and Special Meeting of shareholders held May 26, 2005, an amendment to the Company's SAR Plan to increase the maximum number of common shares which may be issued pursuant to the SAR Plan from 2.5 million to 3 million common shares. The exercise price of each right is not to be less than the market price of the Company's common shares on the last trading day preceding the grant and a right's maximum term is 10 years. The rights may be surrendered or exchanged by the holder with the consent of the Company for either cash or common shares with a value equal to the capital appreciation inherent in the right surrendered or exchanged. Rights granted pursuant to the SAR Plan shall be exercisable commencing not earlier than the first anniversary of grant. The following activity occurred during the year ended December 31, 2005:

	Range of Exercise Price	Weighted Average Exercise Price	SARs Outstanding	SARs Exercisable
Outstanding, December 31, 2003	$ 0.30 – 1.25	$ 0.79	1,733,333	1,399,998
Granted	0.80	0.80	125,000	
Exercised	0.48 – 0.66	0.55	(550,000)	
Cancelled or expired	1.12	1.12	(8,333)	
Outstanding, December 31, 2004	0.30 – 1.25	0.90	1,300,000	1,175,000
Granted	0.95 – 4.57	1.29	116,205	
Exercised	0.30 – 1.25	1.02	(489,386)	
Outstanding, December 31, 2005	$ 0.30 – 4.57	$ 0.88	926,819	810,614

The following table summarizes information concerning share appreciation rights outstanding at December 31, 2005:

	Total SARs Outstanding			Exercisable SARs	
Range of Exercise Price	Number	Weighted Average Remaining Contractual Life (years)	Weighted Average Exercise Price	Number	Weighted Average Exercise Price
Less than $0.81	412,282	7.7	$ 0.42	412,282	$ 0.42
$0.81 – $1.00	105,265	9.0	0.95	–	–
$1.01 – $2.00	398,332	5.4	1.24	398,332	1.24
Greater than $2.00	10,940	10.0	4.57	–	–
	926,819	6.9	$ 0.88	810,614	$ 0.82

7. Stock-based Compensation

The Company uses the fair value method to calculate a fair value for stock-based compensation and records that fair value as an expense over the vesting period of the award. The fair value of each award granted since January 1, 2002 under the Company's Option Plan and the SAR Plan is estimated on the date of grant using the Black-Scholes option pricing model and the following assumptions; risk free interest rates ranging from 3.2% to 4.75%, expected lives of 5 years, and estimated volatility ranging from 94% to 101%. This fair value is amortized over the vesting period of the award. The following amounts have been recognized as stock-based compensation cost:

Year ended December 31,	**2005**	2004
Option Plan	**$ 1,635,621**	$ 734,147
SAR Plan	**305,479**	248,385
	1,941,100	982,532
Capitalized to Property, Plant and Equipment	**(478,000)**	–
	$ 1,463,100	$ 982,532

8. Per Share Computations

The following table provides a reconciliation of the numerators and denominators of the basic and diluted earnings per share computations.

Year ended December 31,	2005	2004
Numerator for basic and diluted earnings per share		
– net loss	$ (6,577,344)	$ (2,777,996)
Denominator for basic earnings per share		
– weighted average number of shares	387,808,518	298,657,537
Denominator for diluted earnings per share:		
– weighted average number of shares	387,808,518	298,657,537
– effect of dilutive employee stock options	5,449,857	806,306
– effect of dilutive share appreciation rights	676,855	222,081
– effect of dilutive share purchase warrants	–	13,175,992
Denominator for diluted earnings per share	393,935,230	312,861,916
Net loss per share – basic	$ (0.02)	$ (0.01)
Net loss per share – diluted	$ (0.02)	$ (0.01)

Excluded from the calculations for the year ended December 31, 2005 are 507,600 (2004 – 4,577,000) outstanding stock options with an exercise price range of $4.08 – $4.57 (2004 – $0.85 – $1.25) and 10,940 (2004 – 841,665) outstanding share appreciation rights with an exercise price of $4.57 (2004 – $0.85 – $1.25) as they are currently anti-dilutive. These securities could potentially dilute per share amounts in future periods.

9. Credit Facility

The Company has arranged a credit facility of up to $5 million with a Canadian chartered bank. The facility is repayable on demand, bears interest at the bank's prime rate, and is secured by a General Security Agreement. The letter of credit previously issued by the bank on behalf of the Company for the benefit of Alberta Environment in the amount of $840,000 as security in respect of future site restoration costs for the Fort Hills Project was returned on August 16, 2005, and a replacement letter of credit was posted by the operator of the Fort Hills Project.

10. Commitments

a) Third Party Royalty

The Fort Hills Project as presently configured is subject to a royalty in favour of a third party respecting the volume of bitumen produced and shipped from oil sands lease 52 with a minimum annual payment of $200,000 commencing in 2000 and subject to a maximum aggregate royalty of $20 million. The royalty is calculated as 1% to 2% of production and cumulative payments to December 31, 2005 total $1,200,000.

b) Fort Hills Project Development Plan

The continued ownership of the Fort Hills Projects' leases 5 and 52 is subject to an agreement with, and a Development Plan and its milestones approved by, the Minister of Energy (the "Minister"). Under the Development Plan as it existed prior to amendment in October 2005, the production milestone was the production of 50,000 barrels per day of crude bitumen from the three leases of the Fort Hills Project before June 30, 2009. On October 31, 2005, Alberta Energy advised the Partnership that

it had approved an amendment to the Development Plan associated with the Fort Hills Leases, allowing for a 100,000 barrel per day mine plan by June 30, 2011. The Partnership must meet the following additional interim development milestones: (i) submit applications for amending regulatory approvals by March 31, 2007, (ii) tender and award major engineering contracts by March 31, 2008, (iii) receive Board of Director approval for the Fort Hills Project and full Fort Hills Project funding authorization by September 30, 2008, and (iv) tender and award major construction contracts by March 31, 2009. Certain provisions of the agreement include the following:

i) the Partnership is to actively and aggressively pursue the development milestones and the Fort Hills Project or the Minister may cancel lease 5 and lease 52;

ii) if a development milestone has not been achieved, a performance deposit of $10 million in respect of the development milestone may be required by the Minister; and

iii) any performance deposit (other than the production milestone) is refundable if the Partnership achieves the development milestone prior to the production milestone of June 30, 2011.

c) Petro-Canada/Teck Cominco/UTS Energy Corporation Agreement

On March 1, 2005, UTS announced that it had entered into an agreement with Petro-Canada relating to the joint development of the Fort Hills Project. Under the agreement, UTS retained a 40% interest in the Project while Petro-Canada became the operator with a 60% interest. In addition, UTS retained 100% ownership of lease 14 on the west side of the Athabasca River. The arrangement with Petro-Canada provided for an initial joint $1.0 billion Project funding commitment. Petro-Canada was to earn a 60% interest and operatorship by paying $300 million of UTS' share of Fort Hills' development costs, at a rate of 75% of UTS' 40% interest share until fully earned into the Project. At the same time as paying the earn-in, Petro-Canada was to also pay its own 60% share of the Fort Hills development costs. After the first $1 billion of spending was to have been reached, further costs and expenses incurred would be funded by the partners on the basis of their ownership interests.

The Fort Hills partnering arrangement was revised during the third quarter with the addition of Teck Cominco Limited ("Teck") as a 15% working interest partner. On September 5, 2005, the Company entered into a binding Memorandum of Agreement ("MOA") which set out the terms of the Partnership relating to the joint development of the Fort Hills Project. Under the MOA, the Company retains a 30% interest in the Project, Petro-Canada remains the operator with a 55% interest, and Teck subscribes for a 15% interest in the Project. The revised Limited Partnership Agreement ("LPA") was executed November 30, 2005, reflecting this arrangement. The LPA provides for an initial joint $2.5 billion funding commitment for expenditures on the Fort Hills Project incurred from March 1, 2005 onward. Teck will earn a 15% interest by paying $850 million of the first $2.5 billion spent, the remaining $1.65 billion to be contributed by Petro-Canada at $1.55 billion and UTS at $100 million. After the first $2.5 billion of spending was to have been reached, further costs and expenses incurred will be funded by the partners on the basis of their ownership interest.

d) Fort Hills Funding

The Company is responsible for the capital and operating costs of the Fort Hills Project. The cost of development of the Fort Hills Project significantly exceeds the Company's financial resources. Prior to commencing operations (if at all), UTS intends to finance such capital requirements from borrowings or from sales of equity securities. If additional financing is unavailable, the Fort Hills Project may be further delayed, development may be indefinitely postponed, or the future value of the Company's investment therein may be impaired.

e) Lease 14

On September 5, 2005, a letter of intent was signed by UTS and Teck, setting out in broad terms the basis upon which UTS will enter into an agreement to grant Teck a right of first offer at fair market value for up to a 50% working interest in lease 14, conditional upon full delineation of the lease and the determination, both at the discretion of UTS, that the best use of lease 14 is to develop it as a satellite mine to the Fort Hills Project, subject to agreement of the Partnership. This agreement was revised with the signing of the lease 311 letter agreement between UTS and Teck to remove the condition, thereby allowing Teck an unconditional right to participate for up to 50% of lease 14 at fair market value.

f) Lease 311

On December 13, 2005, a letter agreement was signed between UTS and Teck, setting out the terms upon which UTS and Teck would bid jointly on lease 311 in the December 2005 crown land sale. The bid was successful and consideration paid for lease 311, comprising 18 sections, was approximately $6.1 million, with a 50% working interest to each party. Teck agreed to fund the purchase price of lease 311 as consideration for the amendment to the agreement between the parties with respect to lease 14 as disclosed in note 10(e) to these financial statements. UTS will repay Teck its 50% share of the bid price less $2.5 million in respect of certain initial costs when Teck exercises or elects not to exercise its option in respect of lease 14.

g) Lease Commitments

The Company has committed to operating lease arrangements, for office space and equipment, in the aggregate amount of $2,157,000 over the next five years. Annual payments are as follows:

2006	$ 557,000
2007	569,000
2008	586,000
2009	420,000
2010	25,000

11. Contingencies

a) Crown Royalty

The Province of Alberta imposes royalties of varying rates on the production of bitumen from the oil sands leases of the Fort Hills Project. The Fort Hills Project will be subject to an initial crown royalty of 1% of the gross revenue on the bitumen produced, to be paid until the Fort Hills Project has recovered 100% of the capital costs associated with the mining and extraction facilities, including a return on capital. Such return is based on the monthly federal long-term bond rate. Subsequent thereto, the royalty will be the greater of 1% of the gross revenue on the bitumen produced and 25% of net revenue. Net revenue is determined by deducting from gross revenue the aggregate of all allowable operating costs and capital costs and any loss carry forwards.

b) Third Party Royalty

The Project is subject to a royalty payment in favour of Can-Amera Oil Sands, Inc. ("Can-Amera") for bitumen production from lease 5 of $0.045 per barrel of production. Based on UTS' estimates of the bitumen resource of lease 5, the aggregate royalty would approximate $16.5 million. Reference note 11(d) – Legal Claims for further information regarding this royalty claim.

c) Licensing Agreements

The Company has entered into two licensing agreements with third parties in respect of certain alternate technologies related to processes for the extraction of bitumen from oil sands:

i) In 2004, the Company entered into a memorandum of understanding in which the parties have agreed that UTS will be granted a non-exclusive perpetual license for the extraction of bitumen from oil sands. The parties have agreed to negotiate a definitive agreement, based on the terms and conditions detailed in the memorandum of understanding. Contingent on utilization of the underlying subject technology, $2 million is payable when construction of the Fort Hills Project commences and a further $10 million is payable when the Fort Hills Project attains specified levels of production. At December 31, 2005 there are no amounts due under this agreement; and

ii) In 2000, the Fort Hills Project entered into a license and technical support agreement with a third party to obtain ongoing technical support and information on licensed processes for the extraction of bitumen from oil sands through to 2015. To date, $5 million has been paid pursuant to this agreement. Contingent on utilization of the underlying subject technology, an additional $15 million is payable when construction of the Fort Hills Project commences and a further $25 million is payable when the Fort Hills Project attains specified levels of production. At December 31, 2005 there are no amounts due under this agreement.

d) Legal Claims

Pursuant to an originating notice of motion dated September 30, 2004, Can-Amera Oil Sands, Inc. ("Can-Amera") is seeking a declaration of the Court of Queen's Bench (Alberta) as to the entitlement of Can-Amera to a royalty payment from bitumen production from lease 5 of $0.045 per barrel of production. Parties are currently negotiating an agreed way forward in order that Can-Amera may discontinue its originating notice of motion.

e) Other Claims

The Company, through its activities, is sometimes named as a defendant in litigation. The outcome of claims against the Company is not determinable at this time, however, the ultimate outcome is not expected to have a material adverse effect on the Company.

12. Financial Instruments

The carrying value of the Company's financial instruments including cash, accounts receivable, accounts payable and accrued liabilities approximates their fair value because of their short-term nature.

13. Comparative Figures

Certain comparative figures have been reclassified to conform to the current year's presentation.

14. Subsequent Events

a) Lease Acquisition

The Fort Hills Energy Limited Partnership, in which the Company has a 30% working interest, purchased two additional oil sands leases for approximately $60 million via successful bid at the February 8, 2006 crown land sale. The leases comprise a total of 12,968 acres and increase the Partnership's land holdings from 46,170 to 59,138 acres. UTS funded its 30% interest in the leases by paying its 4% of the purchase price, approximately $2.4 million.

b) Collection of Amounts Due from Fort Hills

Subsequent to year end, an amount due from the Partnership as a recovery of certain costs funded by the Company under the revised LPA, totalling approximately $6 million, was collected.

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Pictured above are many of the dedicated professionals responsible for UTS' exceptional accomplishments in 2005. The UTS team includes: Wayne Bobye, Jenn Harris, Patricia Huijbregts, Rachelle Kennedy, Howard Lutley, Doug McDonald, Kerry Morgan, Jina Morissette, Susan Pain, Maria Podio, Will Roach, Diego Romero, Martin Sandell, Veronica Soares, Mike Stevens, Brad Strueby, Ellen Thomas, Stuart Walker, Lynda Werner and Daryl Wightman.

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